

TAB 207

*Interco file***AHERF****Allegheny Health, Education and  
Research Foundation***D.L. Clark Building, 4th Floor  
Pittsburgh, Pennsylvania 15212***Memorandum**

TO: Charles P. Morrison  
Senior Vice President and CFO, Eastern Region

FROM: Daniel J. Cancelmi  
Senior Director, Corporate Accounting and Financial Reporting *DK*

DATE: March 23, 1998

SUBJECT: **Transfer of Self Insurance and Pension Liabilities**

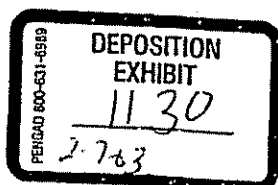
Several years ago, the various self insurance and pension liabilities of the hospitals were transferred from their respective balance sheets to AHERF's balance sheet since the accounting functions for these areas were centralized. When these liabilities were transferred to AHERF, they were transferred through the intercompany liability accounts. In short, the self insurance and pension liabilities on the hospitals' balance sheet were re-characterized as intercompany liabilities since these liabilities were moved to AHERF.

Given the heightened awareness of the hospitals' intercompany balances in recent months, a determination was made in January 1998 to transfer the self insurance and pension liabilities back to the hospitals' balance sheet. This transfer resulted in a reduction of the hospitals' intercompany liabilities.

The following summarizes the self insurance and pension liabilities transferred back to the hospitals.

(\$ in 000s)

	<u>Workers' Compensation</u>	<u>Malpractice</u>	<u>Pension</u>	<u>Total</u>
Management Services	\$ 48	\$ —	\$ 861	\$ 909
MCPH	4,765	21,953	3,819	30,537
Hahnemann	5,116	13,587	5,943	24,646
St. Christopher's	1,419	4,411	3,227	9,057
AUHS	176	—	11,052	11,228
Bucks County	467	1,945	1,094	3,506
Elkins Park	1,446	3,815	1,299	6,560
Graduate	2,525	6,188	3,032	11,745
City Avenue	1,721	1,173	—	2,894
Parkview	702	1,206	—	1,908
Rancocas	—	401	1,744	2,145
Mt. Sinai	461	929	532	1,922
Total	<u>\$18,846</u>	<u>\$55,608</u>	<u>\$32,603</u>	<u>\$107,057</u>



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March 23, 1998  
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Given the long-term nature of these liabilities, the tail period of these liabilities from a funding perspective is probably in the 5 to 10 year range. Accordingly, the liabilities will not have to be fully liquidated in the near term. Fiscal 1999 cash funding requirements for the liabilities will be determined when updated actuarial information is received.

*If you have any questions or need additional information, please contact me at your convenience.*

DJC/jaf  
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cc: Al Adamczak  
Peter Keyes  
Chuck Lisman

TAB 208

IN THE UNITED STATES DISTRICT COURT FOR THE  
WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF )  
UNSECURED CREDITORS OF )  
ALLEGHENY HEALTH, )  
EDUCATION & RESEARCH )  
FOUNDATION, )

Plaintiff, )

vs. )

PRICewaterhouseCOOPERS, )  
LLP, )

Defendant. )

Civil Action

Case No. No. 00-684

VIDEOTAPED DEPOSITION OF: DWIGHT KASPERBAUER

DATE: March 5, 2004

LOCATION: Courtyard Marriott - Kansas City Airport  
7901 North Tiffany Springs,  
Kansas City, Missouri 64153

TAKEN BY: Plaintiff

REPORTED BY: Sandra S. Sondag, CSR

VIDEOGRAPHER: Dave Perdaris, Legal Video



Dwight Kasperbauer

<p style="text-align: right;">Page 90</p> <p>1 A. Approximately 1989, 1990.</p> <p>2 Q. Who was eligible to receive either a short-term or</p> <p>3 long-term bonus under this program?</p> <p>4 A. The short-term bonus program went down to the vice</p> <p>5 president level in the organization. The Long-term</p> <p>6 Plan was for a smaller group of people, the top six</p> <p>7 or top eight people in the organization.</p> <p>8 Q. Who were those people?</p> <p>9 A. Would have been Sherif Abdelhak. David McConnell,</p> <p>10 Nancy Wynstra, Anthony Sanzo, myself, Doctor Ross.</p> <p>11 There may have been others but I don't recall.</p> <p>12 Q. Doctor Kaye?</p> <p>13 A. Doctor Kaye, yeah.</p> <p>14 Q. How many people would have been eligible to receive</p> <p>15 a short-term bonus if everyone at the VP level or</p> <p>16 comparable level was included?</p> <p>17 A. In 1995, '6, '7, and probably, well, the academic</p> <p>18 chairmen were included at that time, so it could</p> <p>19 have been in the neighborhood of a hundred plus</p> <p>20 people.</p> <p>21 Q. What was the purpose of the Incentive Program?</p> <p>22 A. It was to incend or motivate and reward for</p> <p>23 attainment of goals and objectives.</p> <p>24</p> <p>25 (Document was marked Deposition</p>	<p style="text-align: right;">Page 92</p> <p>1 A. Yes, I did.</p> <p>2 Q. Okay. Do you remember attending it?</p> <p>3 A. Not specifically.</p> <p>4 Q. Okay.</p> <p>5 A. No.</p> <p>6 Q. Page 3, it begins, "Mr. Abdelhak presented an</p> <p>7 overview of the proposed revisions to the Annual</p> <p>8 and Long-term Incentive Plans.</p> <p>9 First of all, that is a reference to the</p> <p>10 incentive plans you and I have just been</p> <p>11 discussing; is that correct?</p> <p>12 A. Yes, correct.</p> <p>13 Q. The Annual Plan governed short-term bonuses; is</p> <p>14 that right?</p> <p>15 A. Yes.</p> <p>16 Q. And the Long-term Incentive Plan obviously governed</p> <p>17 long-term bonuses?</p> <p>18 A. Correct.</p> <p>19 Q. The sentence continues with text, "Noting that</p> <p>20 these proposed revisions have been developed as a</p> <p>21 result of concerns expressed by the Committee that</p> <p>22 the prior plans did not reflect an appropriate</p> <p>23 balance last between the various mission elements</p> <p>24 of the organization and the need for the</p> <p>25 organization to retain financial strength."</p>
<p style="text-align: right;">Page 91</p> <p>1 Exhibit Number 2476 for identification )</p> <p>2</p> <p>3 Q. (BY MR. TAMBURRI) Mr. Kasperbauer, let me show you</p> <p>4 what's been marked as Exhibit 2476. Again, I'll</p> <p>5 give you a chance to look at this. My question is</p> <p>6 going to be if you recognize this document?</p> <p>7 A. Yes, I recognize this document.</p> <p>8 Q. Okay. What is this document?</p> <p>9 A. It is the -- it's the minutes of the AHERF</p> <p>10 Compensation Committee held on March 7th, 1995.</p> <p>11 Q. Okay. And were these minutes prepared in the</p> <p>12 ordinary course of AHERF's business in its regular</p> <p>13 practice?</p> <p>14 A. Yes. Nancy Wynstra would have prepared the minutes</p> <p>15 to the meeting</p> <p>16 Q. And would you have reviewed these minutes as part</p> <p>17 of your responsibilities as HR Vice President?</p> <p>18 A. Yes, I would usually do that.</p> <p>19 Q. And would you have kept a copy of these in your</p> <p>20 file?</p> <p>21 A. Yes, probably.</p> <p>22 Q. Okay. If you turn to the page, it's Page 3 of the</p> <p>23 minutes, the top is a Paragraph C. It says,</p> <p>24 "Mr. Abdelhak's --" let me take us one step back.</p> <p>25 You attended this meeting; right</p>	<p style="text-align: right;">Page 93</p> <p>1 Do you remember that these incentive plans were</p> <p>2 revised around March of 1995?</p> <p>3 A. I don't recall.</p> <p>4 Q. Let me -- I'm not trying to play hide the ball</p> <p>5 here. Let me refer you to the page that's labeled</p> <p>6 2914 in the bottom right-hand corner.</p> <p>7 A. Okay.</p> <p>8 Q. Okay. What is this document that begins on that</p> <p>9 page?</p> <p>10 A. It's a plan summary for the Management Annual</p> <p>11 Incentive Plan for AHERF for Administrative Guide.</p> <p>12 Q. So this is a plan governing the short-term bonuses?</p> <p>13 A. That's correct.</p> <p>14 Q. If you look at the last page of this summary, which</p> <p>15 is Page 7, and is also Bates labeled 2920, under</p> <p>16 Paragraph 20, "Effective Date", it says, "The Plan</p> <p>17 is effective as of July 1, 1994 and shall remain in</p> <p>18 effect until terminated by the Compensation</p> <p>19 Committee."</p> <p>20 Does this refresh your memory that this plan --</p> <p>21 or this is the summary of the plan that was in</p> <p>22 effect as of July 1, '94?</p> <p>23 A. That's correct, yes.</p> <p>24 Q. Are you aware of any provisions that governed the</p> <p>25 plan other than these pages that we've just</p>

24 (Pages 90 to 93)

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<p style="text-align: right;">Page 94</p> <p>1 referred to here, 2914 through 2920?</p> <p>2 A. Not that I'm aware of, no.</p> <p>3 Q. So this is, more or less, the Plan?</p> <p>4 A. Yes.</p> <p>5 Q. Okay. If you turn to Page 2 of the Plan. It's on</p> <p>6 2915.</p> <p>7 A. (Witness complies).</p> <p>8 Q. At the top it says, "Must Goals"?</p> <p>9 A. Uh-huh, I see that.</p> <p>10 Q. What's your understanding as to what the "Must</p> <p>11 Goals" were of the plan?</p> <p>12 MS. DeMASI: Objection to form.</p> <p>13 A. I don't think I recall what they were.</p> <p>14 Q. (BY MR. TAMBURRI) Who prepared this Plan? Who</p> <p>15 would have prepared it?</p> <p>16 A. I don't recognize the formatting as something that</p> <p>17 would have come out of my office, so this might</p> <p>18 have been prepared by MCG.</p> <p>19 Q. If you look at Page 4 of the Plan, there's a table</p> <p>20 in the middle of the page. Do you see this?</p> <p>21 A. Uh-huh.</p> <p>22 Q. What's your understanding as to what that table</p> <p>23 depicts?</p> <p>24 A. That would help determine the individual's bonus</p> <p>25 award based upon the individual's performance and</p>	<p style="text-align: right;">Page 96</p> <p>1 MS. DeMASI: Objection</p> <p>2 A. There were financial measures in the plans, yes.</p> <p>3 Q. (BY MR. TAMBURRI) Okay</p> <p>4</p> <p>5 (Document was marked Deposition</p> <p>6 Exhibit Number 2477 for identification )</p> <p>7</p> <p>8 Q. (BY MR. TAMBURRI) Mr. Kasperbauer, let me show you</p> <p>9 what's been marked as Exhibit 2477. Do you</p> <p>10 recognize this document?</p> <p>11 A. Yes, I do. It appears to be a report that would</p> <p>12 have been put together in preparation for</p> <p>13 determining incentive compensation. Doesn't say</p> <p>14 that but I think that was the purpose of it.</p> <p>15 Q. Okay. Do you know who prepared this document?</p> <p>16 A. Not for sure, no.</p> <p>17 Q. Would you have received a copy of this document at</p> <p>18 or around the time that it was prepared?</p> <p>19 A. Most likely, yes.</p> <p>20 Q. Would you have kept this in your files in the HR</p> <p>21 Department?</p> <p>22 A. Yes.</p> <p>23 Q. Why would you have done that?</p> <p>24 A. Well, this is, I guess, a part of the incentive</p> <p>25 compensation, so I keep that as a file for</p>
<p style="text-align: right;">Page 95</p> <p>1 the organizational performance.</p> <p>2 Q. So the calculation of an executive's bonus was</p> <p>3 dependent on the success or lack thereof of his or</p> <p>4 her business unit; right?</p> <p>5 A. Right.</p> <p>6 Q. But --</p> <p>7 A. If it's business unit achieved expectations and the</p> <p>8 individual achieved expectations, the target -- the</p> <p>9 bonus would be 20 percent. It could be, I guess,</p> <p>10 as low as 15 and as high as 25, according to this.</p> <p>11 Q. Okay. Is it fair to say, looking at this table,</p> <p>12 that if an executive was eligible for a bonus</p> <p>13 ranging between 5 percent and 35 percent of his or</p> <p>14 her salary, depending on how he or she performed</p> <p>15 and how his or her business unit performed?</p> <p>16 A. Yeah. And I would probably go on to say that</p> <p>17 judgement could be applied, but it could go from</p> <p>18 zero to 40 percent.</p> <p>19 Q. Okay. And this just refers to the short-term</p> <p>20 bonuses?</p> <p>21 A. That's correct.</p> <p>22 Q. Did you understand that some of the criteria for</p> <p>23 determining whether any executive was eligible for</p> <p>24 a short-term bonus was the financial performance of</p> <p>25 AHERF?</p>	<p style="text-align: right;">Page 97</p> <p>1 documentation purposes.</p> <p>2 Q. If you turn to the second page.</p> <p>3 A. Uh-huh.</p> <p>4 Q. And if you look at the footer, it says, "AA:kw"?</p> <p>5 A. Uh-huh.</p> <p>6 Q. Does that lead you to think that Al Adamczak</p> <p>7 prepared this?</p> <p>8 A. I would conclude that, yes.</p> <p>9 Q. This document lists six performance measures. Do</p> <p>10 you see them listed there?</p> <p>11 A. Yes, I do.</p> <p>12 Q. Is it your understanding that these are the six</p> <p>13 performance measures that AHERF had to satisfy for</p> <p>14 any executive to be eligible for either a</p> <p>15 short-term or a long-term bonus under this</p> <p>16 Incentive Plan?</p> <p>17 A. I think so, without going back and seeing what</p> <p>18 might have been set in the minutes at the beginning</p> <p>19 of the fiscal year.</p> <p>20 Q. Okay.</p> <p>21 A. But I -- I would conclude that, yes.</p> <p>22 Q. Okay. If we can look at these, could you tell me</p> <p>23 what these performance measures, first of all, what</p> <p>24 they were and what they were designed to measure?</p> <p>25 MS. DeMASI: I'm sorry, do you want him</p>

25 (Pages 94 to 97)



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<p style="text-align: right;">Page 98</p> <p>1 to go one by one or --</p> <p>2 MR. TAMBURRI: Yeah.</p> <p>3 Q. (BY MR. TAMBURRI) Do you mind going one by one?</p> <p>4 A. No not at all. The first measure appears to be a</p> <p>5 measure of the cost per adjusted discharge, a</p> <p>6 measure of how much it costs for us to deliver</p> <p>7 care. And it indicates that our decrease was 3 and</p> <p>8 a half percent, while the medical component cost</p> <p>9 index increased 4.7 percent. So our costs went --</p> <p>10 our costs went down at a time when the Consumer</p> <p>11 Price Index was going up.</p> <p>12 Q. Can I ask you about this first -- I don't mean to</p> <p>13 interrupt</p> <p>14 A. No.</p> <p>15 Q. What was this designed -- what was the purpose of</p> <p>16 this, of this Performance Measure, in layman's</p> <p>17 terms?</p> <p>18 A. To incend people to not be wasteful with expenses.</p> <p>19 Q. Okay.</p> <p>20 A. Operating results, as measured by the excess of</p> <p>21 revenue over non-operating gains over expenses.</p> <p>22 So that's, essentially, the margin, operating</p> <p>23 margin of the company. And the comment is that the</p> <p>24 excessive revenue, non operating gains over</p> <p>25 expenses exceeded the target by \$120,000.</p>	<p style="text-align: right;">Page 100</p> <p>1 A. And managing appropriately other forms of</p> <p>2 uncompensated care, charity care.</p> <p>3 Q. Okay. What about the fifth performance measure?</p> <p>4 A. This is an incentive to recognize increased volume</p> <p>5 or business activity, occupancy rate measured by</p> <p>6 admission. So it's designed to reflect reward for</p> <p>7 growing the organization.</p> <p>8 Q. How about the sixth performance measure?</p> <p>9 A. That's a measure of research funding. The idea is</p> <p>10 to attract more research funding to support</p> <p>11 research within the organization.</p> <p>12 Q. These six performance measures were all measures of</p> <p>13 AHERF's performance during fiscal year '95 rather</p> <p>14 than the performance of any of its subsidiaries; is</p> <p>15 that --</p> <p>16 A. Correct.</p> <p>17 Q. Okay.</p> <p>18 A. That's correct.</p> <p>19 Q. And is it your understanding that all six of these</p> <p>20 performance measures had to be satisfied for AHERF</p> <p>21 executives to be eligible for bonuses?</p> <p>22 A. I don't know if they all had to be satisfied. I</p> <p>23 think these were the factors that the Compensation</p> <p>24 Committee looked at when they evaluated</p> <p>25 performance, but I don't know -- going back to what</p>
<p style="text-align: right;">Page 99</p> <p>1 So we were successful in generating a higher</p> <p>2 operating margin than was anticipated.</p> <p>3 Q. This second performance measure was designed,</p> <p>4 essentially, to measure net income of AHERF; is</p> <p>5 that a fair statement?</p> <p>6 MS. DeMASI: Objection, form.</p> <p>7 A. Yeah, I guess -- yeah, operating profit.</p> <p>8 Q. (BY MR. TAMBURRI) Okay. How about the third</p> <p>9 performance measure?</p> <p>10 A. This is a measure of increase in net equity of the</p> <p>11 organization or of value of the organization. And</p> <p>12 it increased at a rate greater than the Consumer</p> <p>13 Price Index, so the equity, the value of the</p> <p>14 organization went up.</p> <p>15 Q. This is a measure -- Performance Measure Number 3</p> <p>16 is designed to measure the net worth of AHERF?</p> <p>17 A. Yeah, that would be accurate.</p> <p>18 Q. What about the fourth performance measure?</p> <p>19 A. The fourth one deals with maintaining a level of</p> <p>20 uncompensated care for patient services, and</p> <p>21 uncompensated care is a percentage of net patient</p> <p>22 revenue decreased. And as I recall, managing</p> <p>23 uncompensated care was a measure of trying to</p> <p>24 control bad debt.</p> <p>25 Q. Okay.</p>	<p style="text-align: right;">Page 101</p> <p>1 you said earlier about must goals --</p> <p>2 Q. Okay.</p> <p>3 A. -- I don't know if these were expressed as must</p> <p>4 goals or not, I don't recall.</p> <p>5 Q. Okay. If you look at the top of the document, it</p> <p>6 says, "The following quantitative performance</p> <p>7 measures, which are compiled primarily from</p> <p>8 information contained within the audited financial</p> <p>9 statements, where appropriate, and which have been</p> <p>10 reviewed and verified by Coopers &amp; Lybrand, are</p> <p>11 intended to assist in the annual evaluation of</p> <p>12 AHERF's performance and that of its key managers</p> <p>13 and employees."</p> <p>14 What was Coopers &amp; Lybrand's role in this</p> <p>15 incentive?</p> <p>16 A. It's my understanding that they perform what's</p> <p>17 called in the business as an agreed-upon procedures</p> <p>18 audit, which is essentially a review and</p> <p>19 affirmation that the information that's provided is</p> <p>20 provided consistent with procedures and business</p> <p>21 practices.</p> <p>22 Q. Okay. After reviewing that first sentence, is it</p> <p>23 your recollection that Coopers &amp; Lybrand -- Coopers</p> <p>24 &amp; Lybrand evaluated whether AHERF -- let me take a</p> <p>25 step -- I'm going to ask you that question in a</p>

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<p style="text-align: right;">Page 102</p> <p>1 second, let me just mark this, first.</p> <p>2</p> <p>3 (Document was marked Deposition</p> <p>4 Exhibit Number 2478 for identification.)</p> <p>5</p> <p>6 Q. (BY MR. TAMBURRI) Let me show you what's been</p> <p>7 marked as Exhibit 2478. I'll give you a chance to</p> <p>8 look at this.</p> <p>9 A. Okay.</p> <p>10 Q. Do you recognize this document?</p> <p>11 A. Yes, I do.</p> <p>12 Q. What is that document?</p> <p>13 A. This is a letter back to me from Coopers &amp; Lybrand</p> <p>14 indicating that they have completed an agreed-upon</p> <p>15 procedures review that I had requested of them in</p> <p>16 connection with the incentive plans.</p> <p>17 Q. Did you -- would you have received this document in</p> <p>18 your capacity as HR VP of AHERF?</p> <p>19 A. Yes, I would have.</p> <p>20 Q. Did you review it at the time you received it?</p> <p>21 A. I most certainly did.</p> <p>22 Q. Would you have kept it in your file?</p> <p>23 A. Yes.</p> <p>24 Q. If you'd turn to Page DBR-AA 22482.</p> <p>25 A. (Witness complies).</p>	<p style="text-align: right;">Page 104</p> <p>1 Q. (BY MR. TAMBURRI) Okay Do you know who prepared</p> <p>2 this document?</p> <p>3 A. I would assume by the footer that it was AI</p> <p>4 Adamczak is the initials that appear at the bottom</p> <p>5 of the form.</p> <p>6 Q. Okay Does it refresh your recollection that AHERF</p> <p>7 calculated these or performed these calculations</p> <p>8 rather than Coopers &amp; Lybrand?</p> <p>9 A. Yeah, it would appear that we, AI Adamczak</p> <p>10 submitted these for consideration by Coopers &amp;</p> <p>11 Lybrand as part of the audit.</p> <p>12 Q. If that is what -- if that's how this occurred,</p> <p>13 that Mr. Adamczak performed these calculations, and</p> <p>14 these were submitted to Coopers, what was Coopers'</p> <p>15 role once it received these calculations? What's</p> <p>16 your understanding?</p> <p>17 A. That they would verify their accuracy.</p> <p>18 Q. How did Coopers do that?</p> <p>19 MS. DeMASI: Objection to form.</p> <p>20 A. I don't know.</p> <p>21 Q. (BY MR. TAMBURRI) Let me refer to you to Page 1,</p> <p>22 which is 22482.</p> <p>23 MS. DeMASI: Page 1 of Exhibit 1?</p> <p>24 MR. TAMBURRI: Yeah.</p> <p>25 MS. DeMASI: I think we're about to</p>
<p style="text-align: right;">Page 103</p> <p>1 Q. Are these the agreed-upon procedures that you had</p> <p>2 mentioned earlier that AHERF had with Coopers &amp;</p> <p>3 Lybrand for, or in connection with the fiscal year</p> <p>4 '95 performance measures?</p> <p>5 A. Yes.</p> <p>6 Q. If you look down at "Excess Deficiency of Revenue";</p> <p>7 do you see that?</p> <p>8 A. Yes, I do.</p> <p>9 Q. What's your understanding as to how AHERF -- I'm</p> <p>10 sorry, how Coopers determined whether or not AHERF</p> <p>11 had -- let me take a step back.</p> <p>12 What's your understanding how this process</p> <p>13 worked with Coopers' involvement? Did Coopers do</p> <p>14 calculations for AHERF as it related to these</p> <p>15 performance measures?</p> <p>16 MS. DeMASI: Objection to form.</p> <p>17 A. I don't know.</p> <p>18 Q. (BY MR. TAMBURRI) Okay. Let me ask you to turn to</p> <p>19 the last page of the document. Or last two pages,</p> <p>20 sorry.</p> <p>21 A. (Witness complies).</p> <p>22 Q. Do you see that these are calculations of the</p> <p>23 performance measures for 1995?</p> <p>24 MS. DeMASI: Objection to form.</p> <p>25 A. Yes, I do.</p>	<p style="text-align: right;">Page 105</p> <p>1 change the tape.</p> <p>2 MR. TAMBURRI: Oh, okay.</p> <p>3</p> <p>4 (Brief Recess)</p> <p>5</p> <p>6 Q. (BY MR. TAMBURRI) Mr. Kasperbauer, let me ask you</p> <p>7 about the agreed-upon procedures that start on</p> <p>8 22482. How did these agreed-upon procedures come</p> <p>9 about?</p> <p>10 MS. DeMASI: Objection to form.</p> <p>11 A. I think as a part of the early communications or</p> <p>12 discussions with the Compensation Committee, that</p> <p>13 they wanted review of information that was</p> <p>14 presented to them for validity and accuracy for</p> <p>15 determining incentive compensation.</p> <p>16 Q. (BY MR. TAMBURRI) Okay.</p> <p>17 A. So they wanted an outside, someone outside the HR</p> <p>18 Department or Finance Department to validate the</p> <p>19 information.</p> <p>20 Q. Were you involved in the preparation of these</p> <p>21 agreed-upon procedures?</p> <p>22 A. I would say to some degree, I don't recall</p> <p>23 specifically.</p> <p>24 Q. If you look down at "Excess Deficiency of Revenue";</p> <p>25 do you see where that bullet point begins?</p>

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<p style="text-align: right;">Page 106</p> <p>1 A. Yes, I do.</p> <p>2 Q. Underneath it says, "We agree the excess</p> <p>3 (deficiency) of revenue and non-operating gains</p> <p>4 over expenses to information contained in the</p> <p>5 audited financial statements and to board budget</p> <p>6 and management budget information provided by AHERF</p> <p>7 management for the respective business units."</p> <p>8 A. I see that.</p> <p>9 Q. Do you -- was it your understanding that Coopers</p> <p>10 was using audited financial statements to determine</p> <p>11 whether AHERF properly calculated it's achieving or</p> <p>12 lack thereof of the performance majors?</p> <p>13 MS. DeMASI: Objection to form.</p> <p>14 A. I would have to say so based upon what's stated</p> <p>15 here. That's the only knowledge that I would have.</p> <p>16 Q. (BY MR. TAMBURRI) Okay. Did you ever talk to</p> <p>17 anyone at Coopers about how they were implementing</p> <p>18 these agreed-upon procedures?</p> <p>19 A. No, not specifically. And I think I sent them the</p> <p>20 letter asking them to engage in these agreed-upon</p> <p>21 procedures, and then this is the response that came</p> <p>22 back.</p> <p>23 Q. As to the Net Assets, that bullet that begins "Net</p> <p>24 Assets"?</p> <p>25 A. I see it.</p>	<p style="text-align: right;">Page 108</p> <p>1 invitee of that committee?</p> <p>2 A. Yes, I would.</p> <p>3 Q. Okay. Did you maintain these minutes in your file?</p> <p>4 A. Yes, I would have.</p> <p>5 Q. Okay. If you'd look at Page 4 of the minutes.</p> <p>6 A. (Witness complies).</p> <p>7 Q. Paragraph 8 is entitled "AHERF Incentive Plan Award</p> <p>8 Performance Report."</p> <p>9 A. Yes.</p> <p>10 Q. It says that you presented an auditor's report on</p> <p>11 the performance of the organization? Do you</p> <p>12 remember presenting that report?</p> <p>13 A. No, I don't but I'm sure I did.</p> <p>14 Q. Do you have -- do you believe that the auditor's</p> <p>15 report that you presented is Exhibit 2478?</p> <p>16 A. It would appear to be that, yes. Essentially the</p> <p>17 same format.</p> <p>18 Q. Is it your understanding that Coopers &amp; Lybrand,</p> <p>19 the report prepared by Coopers &amp; Lybrand indicated</p> <p>20 that AHERF had attained the six performance</p> <p>21 measures for fiscal year 1995 that we talked about</p> <p>22 earlier?</p> <p>23 MS. DeMASI: Objection to form.</p> <p>24 A. Yes.</p> <p>25 Q. (BY MR. TAMBURRI) If you'd turn to the next page,</p>
<p style="text-align: right;">Page 107</p> <p>1 Q. It says, "We agreed net asset balances to</p> <p>2 information contained in the audited financial</p> <p>3 statements for the respective business units."</p> <p>4 Do you have any recollection as to whether</p> <p>5 Coopers &amp; Lybrand was using audited financial</p> <p>6 statements of AHERF as part of these agreed-upon</p> <p>7 procedures?</p> <p>8 A. I don't know for sure, I'd have to rely upon what's</p> <p>9 stated here.</p> <p>10 Q. Do you have any reason to believe that Coopers was</p> <p>11 not using the audited financial statements as part</p> <p>12 of these agreed-upon procedures?</p> <p>13 A. No, I don't.</p> <p>14</p> <p>15 (Document was marked Deposition</p> <p>16 Exhibit Number 2479 for identification.)</p> <p>17</p> <p>18 Q. (BY MR. TAMBURRI) Let me show you what's been</p> <p>19 marked as Exhibit 2479. Do you recognize this</p> <p>20 document?</p> <p>21 A. These are the minutes from the October 3rd, 1995</p> <p>22 AHERF Compensation Committee meeting.</p> <p>23 Q. Okay. Did you attend this meeting?</p> <p>24 A. Yes, I did.</p> <p>25 Q. And you would have received these minutes as an</p>	<p style="text-align: right;">Page 109</p> <p>1 Page 5 of the minutes.</p> <p>2 A. (Witness complies).</p> <p>3 Q. Do you see the "Whereas" clause? It says,</p> <p>4 "Whereas, the performance threshold measures</p> <p>5 adopted for Fiscal Year 1995 are:" And then it</p> <p>6 lists six of the performance measures?</p> <p>7 A. Uh-huh.</p> <p>8 Q. The six performance measures listed are the ones,</p> <p>9 the six that you and I talked about earlier;</p> <p>10 correct?</p> <p>11 A. Correct.</p> <p>12 Q. Does this refresh your recollection that these were</p> <p>13 in fact, these six performance measures, adopted by</p> <p>14 the Compensation Committee prior to beginning of</p> <p>15 fiscal year '95?</p> <p>16 A. Yes.</p> <p>17 Q. Okay. As a result of this meeting, did the</p> <p>18 committee authorize AHERF to distribute Short-term</p> <p>19 and Long-term Incentive Awards for 1995?</p> <p>20 A. Yes.</p> <p>21 Q. Were those incentive awards in fact distributed to</p> <p>22 the eligible executives?</p> <p>23 A. Yes, they were.</p> <p>24 Q. Do you know who received short-term and long-term</p> <p>25 bonuses for fiscal year 1995 performances?</p>

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<p style="text-align: right;">Page 110</p> <p>1 A. It would have been the top seven or eight people in 2 the organization in terms of the short and long 3 term, and then other vice president level people. 4 Q. Okay. 5 A. More than I can recall. 6 Q. Okay. Is it your understanding that the committee 7 approved the award of -- the Compensation Committee 8 approved the award of those incentive bonuses 9 because these six performance measures were indeed 10 satisfied for 1995? 11 A. Yes. 12 Q. Do you have an understanding as to why the 13 agreed-upon procedures that Coopers &amp; Lybrand 14 implemented in connection with these performance 15 measures included a review of the audited financial 16 statements by Coopers? 17 MS. DeMASI: Object to the form. 18 Q. (BY MR. TAMBURRI) Do you know what I'm asking? 19 Do you understand? 20 A. Not exactly, no. 21 Q. Why is it that -- what's you're -- why is it that 22 Coopers was asked to prepare AHERF's calculations, 23 audited financial statements? 24 MS. DeMASI: Objection to form. 25 A. It's my understanding that those are the official</p>	<p style="text-align: right;">Page 112</p> <p>1 people in the organization. Outside the 2 organization reviewing the people that are inside 3 the organization. 4 Q. Do you know if the performance measures, the six 5 performance measures that we talked about earlier 6 changed in any way between fiscal year 1995 and 7 1996? 8 A. I think they did change from time to time 9 Q. Okay. Do you remember what any of those changes 10 were? 11 A. Not off the top of my head, no. 12 Q. Okay. 13 14 (Document was marked Deposition 15 Exhibit Number 2480 for identification.) 16 17 Q. (BY MR. TAMBURRI) Mr. Kasperbauer, earlier you 18 expressed an interest in getting out of here, or 19 not getting out of here, but -- 20 A. Getting out of here. 21 Q. -- finishing early. 22 A. Yes. 23 Q. I recognize that. If, however, you want to take a 24 break for lunch, just let me know. I'm happy to do 25 whatever you want to do, so it's up to you, really.</p>
<p style="text-align: right;">Page 111</p> <p>1 results of the organization. They're attested to 2 by certified public accountants. And that's the 3 authority that you would go to for information. 4 Q. (BY MR. TAMBURRI) Okay. Did you ever -- did you 5 believe that for purposes of calculating net income 6 as a performance measure, the audited financial 7 statements would be the best source of information? 8 A. Yes. 9 Q. Why do you say that? 10 A. Because they're reviewed by, or analyzed by 11 professionals who are independent of the 12 organization. That's the role of the public 13 accountant, to review the work that's done by the 14 organization to attest to its accuracy. 15 Q. And you held that belief in fiscal year '95? 16 A. Yes, I did. 17 Q. Did you believe, for purposes of fiscal year '95, 18 that the audited financial statements of AHERF were 19 the best indicator of AHERF's net worth for 20 purposes of determining whether AHERF satisfied 21 performance measures regarding its net worth? 22 A. Yes. 23 Q. Why do you say that? 24 A. Again, it's an independent body that's reviewing 25 and attesting to the work that's prepared by the</p>	<p style="text-align: right;">Page 113</p> <p>1 A. I'm fine to continue. 2 Q. That's fine with me. Okay. 3 Let me show you what's been marked as 4 Exhibit 2480. Do you recognize this document? 5 A. This appears to be a report prepared by Al Adamczak 6 concerning the AHERF performance measures for 7 fiscal year 1996. 8 Q. And those performance measures were the performance 9 measures established for determining whether or not 10 AHERF executives would receive bonuses under the 11 incentive program? 12 A. That's correct. 13 Q. Did you receive this document at or about the time 14 it was generated? 15 A. Yes, I would have. 16 Q. You would have kept it in your file? 17 A. Yes, correct. 18 Q. You would have received it because you were the HR 19 VP; is that right? 20 A. That's correct. 21 Q. Does this document accurately depict the six 22 performance measures that have been established for 23 fiscal year '96 for purposes of determining whether 24 AHERF executives would receive bonuses during, for 25 fiscal year '96?</p>

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<p style="text-align: right;">Page 114</p> <p>1 A. I believe it to be accurate, yes.</p> <p>2 Q. Okay. If you look at Performance Measure Number 2,</p> <p>3 it's listed as "Achieve favorable overall operating</p> <p>4 results as measured by net income in excess of</p> <p>5 established targets."</p> <p>6 Net income, again, was a performance measure</p> <p>7 for fiscal year '96?</p> <p>8 A. Correct.</p> <p>9 Q. Performance Measure Number 3. It says, "Achieve a</p> <p>10 favorable trend in financial viability, as measured</p> <p>11 by an increase in net equity, which is greater than</p> <p>12 the change in the consumer price index."</p> <p>13 Again, net worth was a performance measure for</p> <p>14 fiscal year 1996?</p> <p>15 A. That's correct.</p> <p>16 Q. Is it your understanding that determination of</p> <p>17 AHERF's net income for purposes of calculating --</p> <p>18 let me take a step back.</p> <p>19 Is it your understanding that AHERF's 1996</p> <p>20 fiscal year audited financial statements were used</p> <p>21 to determine whether AHERF satisfied the second</p> <p>22 performance measure which dealt with net income?</p> <p>23 MS. DeMASI: Objection to form.</p> <p>24 A. I believe that to be the case, yes.</p> <p>25 Q. (BY MR. TAMBURRI) And why do you say that?</p>	<p style="text-align: right;">Page 116</p> <p>1 regarding its net worth for fiscal year '96?</p> <p>2 MS. DeMASI: Objection to form.</p> <p>3 A. As represented by this document, yes.</p> <p>4 Q. (BY MR. TAMBURRI) Okay. Do you have any reason to</p> <p>5 think that any other information was used other</p> <p>6 than the audited financial statements?</p> <p>7 A. No.</p> <p>8 Q. Did anyone at Coopers ever tell you that</p> <p>9 information other than the audited financial</p> <p>10 statements were used to determine whether AHERF</p> <p>11 satisfied Performance Measures Numbers 2 and 3</p> <p>12 during fiscal year '96?</p> <p>13 A. No.</p> <p>14 Q. How about for 1995?</p> <p>15 A. No.</p> <p>16</p> <p>17 (Document was marked Deposition</p> <p>18 Exhibit Number 2481 for identification.)</p> <p>19</p> <p>20 Q. (BY MR. TAMBURRI) Mr. Kasperbauer, let me show you</p> <p>21 what's been marked as Exhibit 2481. Do you</p> <p>22 recognize this document?</p> <p>23 A. Yes, I do. This is the -- these are the minutes</p> <p>24 from the October 15th, 1996 AHERF Compensation</p> <p>25 Committee meeting.</p>
<p style="text-align: right;">Page 115</p> <p>1 A. As we discussed earlier, as a part of the</p> <p>2 agreed-upon procedures, I guess I would expect that</p> <p>3 the financial performance results would be tied</p> <p>4 back to the audited financial statements.</p> <p>5 Q. Performance Measure Number 3 we discussed is a</p> <p>6 measurement of AHERF's net worth?</p> <p>7 A. That's correct.</p> <p>8 Q. Is it your understanding that AHERF's net worth was</p> <p>9 calculated for purposes of determining whether</p> <p>10 AHERF satisfied Performance Measure Number 3 by</p> <p>11 using the 1996 audited financial statements for</p> <p>12 AHERF?</p> <p>13 A. Yes.</p> <p>14 Q. If you look back at the second performance measure</p> <p>15 regarding net income. Was there anything other</p> <p>16 than audited financial statements used to determine</p> <p>17 whether AHERF satisfied that performance measure?</p> <p>18 A. No, this document would indicate that they would</p> <p>19 use the audited financial statements.</p> <p>20 Q. And nothing else?</p> <p>21 A. And nothing else, yes.</p> <p>22 Q. Okay. Is it fair to say that the audited financial</p> <p>23 statements were the only documents, or the only</p> <p>24 information used to calculate or to determine</p> <p>25 whether AHERF satisfied the performance measure</p>	<p style="text-align: right;">Page 117</p> <p>1 Q. Okay. And you attended this meeting?</p> <p>2 A. Yes, I did.</p> <p>3 Q. And you would have received these minutes as the VP</p> <p>4 of HR and an invitee of the committee?</p> <p>5 A. Yes, I would have.</p> <p>6 Q. And you would have kept a copy of these in your</p> <p>7 file?</p> <p>8 A. Yes, I would have.</p> <p>9 Q. If you'd turn to Page 4 of the minutes.</p> <p>10 A. (Witness complies).</p> <p>11 Q. First "Whereas" clause that you can see on the</p> <p>12 page. It says, "Whereas, the performance measures</p> <p>13 adopted for Fiscal Year 1996 and the results for</p> <p>14 each of those goals are:" And it lists six</p> <p>15 performance measures. Do you see that?</p> <p>16 A. I see them, yes.</p> <p>17 Q. Do these minutes accurately reflect what the</p> <p>18 performance measures were for determining whether</p> <p>19 incentive bonuses would be distributed for fiscal</p> <p>20 year '96?</p> <p>21 A. Yes.</p> <p>22 Q. And they are the same six performance measures that</p> <p>23 were listed in Exhibit 2480?</p> <p>24 A. Yes.</p> <p>25 Q. And the Compensation Committee approved the</p>

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<p style="text-align: right;">Page 118</p> <p>1 distribution of short-term and long-term bonuses at</p> <p>2 this meeting because these six performance measures</p> <p>3 had been satisfied by AHERF?</p> <p>4 A. Yes.</p> <p>5 Q. Who would have received short-term and long-term</p> <p>6 bonuses accordingly?</p> <p>7 A. They're listed starting on Page 6. Abdelhak,</p> <p>8 Sherif Abdelhak, Calvin Bland, Walter Cohen, Tom</p> <p>9 Galinski, myself, Doctor Kaye, David McConnell,</p> <p>10 Leonard Ross, Anthony Sanzo, Nancy Wynstra. And</p> <p>11 then there is a long list of other vice president</p> <p>12 level people that would have received bonuses at</p> <p>13 their level in the organization.</p> <p>14 Q. Okay. And those people are listed on Page 7 and 8?</p> <p>15 A. Yes.</p> <p>16 Q. Of the minutes? Is it your understanding that the</p> <p>17 committee approved, the Compensation Committee</p> <p>18 approved the payment of these bonuses because these</p> <p>19 six performance measures had, in fact, been</p> <p>20 satisfied?</p> <p>21 A. Yes, that's my understanding.</p> <p>22 Q. If you'll look at Page 4 of the minutes.</p> <p>23 A. Yes.</p> <p>24 Q. The second performance measure says, "Achieve</p> <p>25 favorable operating results, as measured by net</p>	<p style="text-align: right;">Page 120</p> <p>1 financial statements for fiscal year 1996.</p> <p>2 Q. Would you have received a copy of this document at</p> <p>3 the time it was prepared or shortly thereafter?</p> <p>4 A. Yes.</p> <p>5 Q. Why would you have received it?</p> <p>6 A. This, I believe, was a printed booklet, and it was</p> <p>7 in general distribution of the employees of the</p> <p>8 organization.</p> <p>9 Q. Okay. You would have received it in the normal</p> <p>10 course of being an employee?</p> <p>11 A. (Witness nods head up and down.)</p> <p>12 Q. Did you keep a copy of it in your file?</p> <p>13 A. I don't know.</p> <p>14 MS. DeMASI: Mark, again, just as to the</p> <p>15 completeness of the document, is this intended to</p> <p>16 be just Tab 1 of the Auditors Financial Statements</p> <p>17 for Fiscal Year '96?</p> <p>18 MR. TAMBURRI: Let me just double check</p> <p>19 here.</p> <p>20 MS. DeMASI: I don't think it contains</p> <p>21 their main --</p> <p>22 MR. TAMBURRI: I'm sorry?</p> <p>23 MS. DeMASI: I don't think it contains</p> <p>24 their main audit financial statements.</p> <p>25 MR. TAMBURRI: Oh, just for AHERF, you</p>
<p style="text-align: right;">Page 119</p> <p>1 income, in excess of established targets "</p> <p>2 Is it your understanding that committee was</p> <p>3 told that this performance measure was satisfied</p> <p>4 because net income exceeded the established target</p> <p>5 by \$5,538 -- I'm sorry \$5,538,000?</p> <p>6 MS. DeMASI: Objection, form.</p> <p>7 A. Yes.</p> <p>8 Q. (BY MR. TAMBURRI) Okay Is that because actual</p> <p>9 fiscal year net income for 1996 was represented to</p> <p>10 be \$20,697,000?</p> <p>11 A. That's correct</p> <p>12 Q. Do you know if that actually was fiscal year net</p> <p>13 income for AHERF in 1996?</p> <p>14 A. I only know it because I see it here.</p> <p>15 Q. Okay. You don't have any reason to know it</p> <p>16 otherwise?</p> <p>17 A. No.</p> <p>18 MR. TAMBURRI: You know what, this has</p> <p>19 previously been marked.</p> <p>20 THE COURT REPORTER: Okay. Then I don't</p> <p>21 need to mark it.</p> <p>22 Q. (BY MR. TAMBURRI) Mr. Kasperbauer, let me show you</p> <p>23 what's been previously marked as Exhibit Number</p> <p>24 1001. Do you recognize this document?</p> <p>25 A. This is a reproduction of the AHERF audited</p>	<p style="text-align: right;">Page 121</p> <p>1 mean?</p> <p>2 MS. DeMASI: Uh-huh.</p> <p>3 MR. TAMBURRI: Yeah, that's fine.</p> <p>4 Q. (BY MR. TAMBURRI) I'll just represent to you that</p> <p>5 these are just the -- these are just the audited</p> <p>6 financial statements for AHERF.</p> <p>7 A. Oh, okay.</p> <p>8 Q. And if you'll look at Page, the second page, you'll</p> <p>9 see how they're --</p> <p>10 A. Yeah.</p> <p>11 Q. -- referenced to some of the other subsidiaries?</p> <p>12 A. Yeah. And I take this back. This probably wasn't</p> <p>13 printed in broad distribution. There's a summary</p> <p>14 financial statement, so this was probably just</p> <p>15 distributed to management, upper management people</p> <p>16 in the organization.</p> <p>17 Q. If you'd look at Page 3 of the exhibit</p> <p>18 A. (Witness complies).</p> <p>19 Q. You see it's entitled, "Consolidated statement of</p> <p>20 operations for the year end June 30, 1996."</p> <p>21 A. Uh-huh.</p> <p>22 Q. Do you see that?</p> <p>23 A. Yes, I do.</p> <p>24 Q. Is it your understanding that this is a reflection</p> <p>25 of AHERF's income fiscal year 1996?</p>

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<p style="text-align: right;">Page 122</p> <p>1 A. Yes.</p> <p>2 Q Do you see that the audited financial statements on</p> <p>3 Page, or Page 3 of AHERF's audit and financial</p> <p>4 statements reflect AHERF had a net loss of 11.8</p> <p>5 million for fiscal year '96?</p> <p>6 A. I see that.</p> <p>7 Q Do you remember any discussion as to whether or not</p> <p>8 the calculation of AHERF's net income for purposes</p> <p>9 of Performance Measure Number 2 was properly</p> <p>10 performed in 1996?</p> <p>11 A. No, I don't.</p> <p>12 Q Did you ever talk to anyone at Coopers &amp; Lybrand</p> <p>13 about the calculation of net income?</p> <p>14 A. No.</p> <p>15 Q For fiscal year '96?</p> <p>16 A. No.</p> <p>17 Q Okay.</p> <p>18</p> <p>19 (Document was marked Deposition</p> <p>20 Exhibit Number 2482 for identification )</p> <p>21</p> <p>22 Q (BY MR. TAMBURRI) Mr. Kasperbauer, let me show you</p> <p>23 what's been marked as Exhibit 2482. Do you</p> <p>24 recognize this document?</p> <p>25 A. Yes, I do.</p>	<p style="text-align: right;">Page 124</p> <p>1 Q And you were involved in determining what those</p> <p>2 agreed-upon procedures were for fiscal year '96?</p> <p>3 MR. HENNING: Objection to form.</p> <p>4 A. In the summary form I wouldn't say I got involved</p> <p>5 in the details of what they would be, but as</p> <p>6 accountants and auditors that they would apply</p> <p>7 their judgment to those agreed-upon procedures.</p> <p>8 Q. (BY MR. TAMBURRI) Okay. So short-term bonuses</p> <p>9 under the Incentive Program were distributed to all</p> <p>10 eligible executives for fiscal year 1995?</p> <p>11 A. Yes, to the best of my recollection.</p> <p>12 Q. Long-term bonuses, the Compensation Committee</p> <p>13 approved the accrual of the long-term bonus to all</p> <p>14 eligible executives based upon fiscal year, AHERF's</p> <p>15 attainment of fiscal year '95 performance measures?</p> <p>16 A. That's correct.</p> <p>17 Q. All eligible AHERF executives received short-term</p> <p>18 bonuses under the Incentive Plan because AHERF</p> <p>19 attained this fiscal '96 -- fiscal year '96</p> <p>20 performance measures?</p> <p>21 A. Yes.</p> <p>22 Q. And all eligible AHERF executives received the</p> <p>23 accrual of the long-term bonus because AHERF</p> <p>24 achieved its performance measures for fiscal year</p> <p>25 '96?</p>
<p style="text-align: right;">Page 123</p> <p>1 Q. What is this document?</p> <p>2 A. It's a letter from Coopers &amp; Lybrand to the Board</p> <p>3 of Trustees of AHERF, essentially, in response to</p> <p>4 my letter asking Coopers &amp; Lybrand to do</p> <p>5 agreed-upon procedures, audit, review of our</p> <p>6 performance measures. So this is their official</p> <p>7 letter back to the Board of Trustees.</p> <p>8 Q. And you would have received a copy of this in the</p> <p>9 ordinary course of your business?</p> <p>10 A. Yes, I would have as HR Vice president. Yes, I</p> <p>11 would have.</p> <p>12 Q. And you would have kept a copy of this document in</p> <p>13 your file as your practice?</p> <p>14 A. Yes, I would have.</p> <p>15 Q. If you'd turn to the second page of the exhibit.</p> <p>16 It's entitled "Agreed-upon Procedures"; do you see</p> <p>17 that?</p> <p>18 A. Exhibit 1?</p> <p>19 Q. Yeah. Starts on Page 42226.</p> <p>20 A. Yes, I have it.</p> <p>21 Q. Does Exhibit 1, which starts on 42226 and runs</p> <p>22 through 42228 accurately reflect the agreed-upon</p> <p>23 procedures for assessing performance measures of</p> <p>24 fiscal year '96?</p> <p>25 A. Yes, to the best of my recollection.</p>	<p style="text-align: right;">Page 125</p> <p>1 A. Yes.</p> <p>2 Q Do you know if short-term bonuses were distributed</p> <p>3 to eligible executives in 1997, for fiscal year</p> <p>4 1997?</p> <p>5 A. Fiscal year '97 would have ended June of '97. No,</p> <p>6 I don't believe so.</p> <p>7 Q. Do you know why those bonuses were not distributed?</p> <p>8 A. I think at that time we were -- if I have my years</p> <p>9 correct, we were in the midst of downsizing in</p> <p>10 Philadelphia, and the Compensation Committee didn't</p> <p>11 approve bonuses at that time.</p> <p>12</p> <p>13 (Document was marked Deposition</p> <p>14 Exhibit Number 2483 for identification )</p> <p>15</p> <p>16 Q (BY MR. TAMBURRI) Mr. Kasperbauer, let me show you</p> <p>17 what's been marked as Exhibit 2483.</p> <p>18 A. Yes, I recognize this.</p> <p>19 Q Okay. Let me take one step back for a minute. Can</p> <p>20 you take a look at 2478 again.</p> <p>21 A. (Witness complies).</p> <p>22 Q Can you turn to Pages DBR-AA 22482 through 22484.</p> <p>23 A Okay.</p> <p>24 Q These are the agreed-upon procedures for fiscal</p> <p>25 year 1995; is that right?</p>

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<p style="text-align: right;">Page 126</p> <p>1 A. Correct.</p> <p>2 Q. Did these pages accurately reflect those</p> <p>3 agreed-upon procedures?</p> <p>4 A. Yes, to the best of my knowledge.</p> <p>5 Q. Okay. Exhibit 2483, what is this document?</p> <p>6 A. This is a spreadsheet maintained or created by Dave</p> <p>7 Deasy in the Payroll Department to track, on the</p> <p>8 first page, Sherif Abdelhak's long-term incentive</p> <p>9 accrual and subsequent distributions.</p> <p>10 Q. Okay. And did you receive a copy of this document</p> <p>11 at the time that it was prepared?</p> <p>12 A. Yes.</p> <p>13 Q. Why did you receive it?</p> <p>14 A. This would have been input information to the</p> <p>15 Compensation Committee regarding incentive bonuses</p> <p>16 to be awarded.</p> <p>17 Q. And you would have received it because you were the</p> <p>18 head of HR at the time that you did receive it?</p> <p>19 A. Yes, I administered that plan.</p> <p>20 Q. Okay. And would you have kept this in your file as</p> <p>21 a business practice of yours?</p> <p>22 A. Yes, I would have.</p> <p>23 Q. Okay. Sherif Abdelhak received a long-term</p> <p>24 incentive award for every year between 1988 and</p> <p>25 1997; is that correct?</p>	<p style="text-align: right;">Page 128</p> <p>1 A. That's correct.</p> <p>2 Q. And the total accrued balance of his awards as of</p> <p>3 April 30th, '98, was \$383,395?</p> <p>4 A. That's correct.</p> <p>5 Q. David McConnell received a long-term incentive</p> <p>6 award for every year between 1998 (sic) through</p> <p>7 1997?</p> <p>8 A. That's correct.</p> <p>9 Q. And the amount of his awards range from \$36,000 to</p> <p>10 \$110,000?</p> <p>11 A. That is also correct.</p> <p>12 Q. The accrued balance of his awards totaled \$391,207</p> <p>13 as of April 30th, 1998?</p> <p>14 A. That's correct.</p> <p>15 Q. Mr. Sanzo received an award under the Long-term</p> <p>16 Incentive Plan every year from 1998 (sic) through</p> <p>17 1997 -- 1988 through 1997?</p> <p>18 A. That's correct.</p> <p>19 Q. And the range of his awards totaled \$30,000 -- or</p> <p>20 ranged from \$30,000 to \$100,000?</p> <p>21 A. Correct.</p> <p>22 Q. The total accrued balance of his awards was</p> <p>23 \$352,152?</p> <p>24 A. That's correct.</p> <p>25 Q. And that's as of April 30th, '98?</p>
<p style="text-align: right;">Page 127</p> <p>1 A. That's correct.</p> <p>2 Q. And the amount of his awards ranged, during those</p> <p>3 years, between \$65,000 and \$185,000?</p> <p>4 A. That's correct.</p> <p>5 Q. And the total accrued balance of his awards as of</p> <p>6 April 30th, 1998, was \$651,357?</p> <p>7 A. Yes, correct.</p> <p>8 Q. Turn to the next page.</p> <p>9 A. (Witness complies).</p> <p>10 Q. You received a long-term incentive award for every</p> <p>11 year from 1988 through 1997?</p> <p>12 A. That's correct.</p> <p>13 Q. And the amount of your awards during those years</p> <p>14 ranged from \$21,000 to \$78,000?</p> <p>15 A. That's correct.</p> <p>16 Q. And the total accrued balance of your awards as of</p> <p>17 April 30th, '98, was \$280,848?</p> <p>18 A. Yes.</p> <p>19 Q. Turn to the next page.</p> <p>20 A. (Witness complies).</p> <p>21 Q. Doctor Kaye, he received a long-term incentive</p> <p>22 award for every year between 1991 and 1997?</p> <p>23 A. That's correct.</p> <p>24 Q. And the total -- or the amount of his awards ranged</p> <p>25 from \$31,500 to \$110,000?</p>	<p style="text-align: right;">Page 129</p> <p>1 A. That's correct.</p> <p>2 Q. Now, there were other executives that received</p> <p>3 long-term awards other than the individuals listed</p> <p>4 on this exhibit, right?</p> <p>5 A. Yes.</p> <p>6 Q. Some of those individuals were Nancy Wynstra --</p> <p>7 A. Possibly Doctor Ross.</p> <p>8 Q. Okay. Joe Dionisio?</p> <p>9 A. I believe so.</p> <p>10 Q. Okay. Did you ever meet with representatives of</p> <p>11 Coopers &amp; Lybrand during the course of their annual</p> <p>12 audit?</p> <p>13 MS. DeMASI: Objection to form. The</p> <p>14 audit of the financial statements?</p> <p>15 MR. TAMBURRI: Yeah, I'm sorry, audit of</p> <p>16 financial statements.</p> <p>17 A. No, not that I recall.</p> <p>18 Q. (BY MR. TAMBURRI) Were you ever asked to provide</p> <p>19 information to anyone from Coopers &amp; Lybrand in</p> <p>20 connection with its audit of the AHERF financial</p> <p>21 statements?</p> <p>22 A. Only to the extent that I would have been asked for</p> <p>23 retirement plan information.</p> <p>24 Q. And to the extent that you were asked for</p> <p>25 information, did you provide information?</p>

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<p style="text-align: right;">Page 178</p> <p>1 circumstances that indicate management might under  2 certain conditions, override the Internal control  3 structure or Intentionally misstate the  4 enterprise's financial statements."</p> <p>5 And the column to the right in the second  6 paragraph, the paragraph reads, "Management of  7 AHERF receives very healthy bonuses based on the  8 results of the operations. This is also a factor  9 that we consider in reviewing the results of the  10 organization."</p> <p>11 Did you ever have any communications with  12 anyone at Coopers &amp; Lybrand about the bonuses that  13 AHERF management received?</p> <p>14 A. Not that I recall.</p> <p>15 Q. Okay. Aside from the information that you provided  16 to Coopers in connection with the performance  17 measures, did you provide any other information to  18 Coopers about executive compensation?</p> <p>19 A. Not that I recall.</p> <p>20 Q. Okay.</p> <p>21 MR. TAMBURRI: If you'd give me  22 five minutes to look at my notes, I think I'm done.  23 I just want to check my notes.</p> <p>24 THE WITNESS: Okay.</p> <p>25</p>	<p style="text-align: right;">Page 180</p> <p>1 under the straight Exec-U-Flex program.</p> <p>2 Q. All right. Other than the incentive program,  3 Incentive Award Program, KEYSOP, the Executive Loan  4 Program, were there any other benefits that were  5 awarded to the senior executives that you could  6 think of?</p> <p>7 A. Nothing other than the arrangement that  8 Mr. Abdelhak had with regard with his house.</p> <p>9 Q. Okay. And that was that AHERF bought his house and  10 leased it back, or rented it back to him?</p> <p>11 A. I believe that was the arrangement, yes.</p> <p>12 Q. Were you involved in that --</p> <p>13 A. No.</p> <p>14 Q. -- in any way?</p> <p>15 MR. TAMBURRI: Okay. I know it's been a  16 long day, but I appreciate your time, and I don't  17 have any more questions for you at this time.</p> <p>18 THE WITNESS: Okay.</p> <p>19</p> <p>20 CROSS-EXAMINATION</p> <p>21 BY MS. DeMASI:</p> <p>22 Q. Good afternoon, Mr. Kasperbauer.</p> <p>23 A. Good afternoon.</p> <p>24 Q. Let me just reintroduce myself, my name is Karin  25 DeMasi and I am here representing</p>
<p style="text-align: right;">Page 179</p> <p>1 (Brief Recess)</p> <p>2</p> <p>3 Q. (BY MR. TAMBURRI) Mr. Kasperbauer, did you -- were  4 you involved in any way in any payments made by  5 AHERF to any sporting teams in the Pennsylvania --  6 in Pennsylvania?</p> <p>7 A. No.</p> <p>8 Q. To the extent those payments were made, who would  9 have been responsible for those?</p> <p>10 A. I heard after the fact or when the public knew  11 about an arrangement that had been made with David  12 McConnell to reimburse David McConnell to get a box  13 or something at the Steelers Three River Stadium.</p> <p>14 Q. Okay. The first time you learned about that was  15 after the bankruptcy?</p> <p>16 A. Yes.</p> <p>17 Q. Earlier I showed you an exhibit in which you had  18 provided information about Mr. Abdelhak's income to  19 an insurance company?</p> <p>20 A. Yes.</p> <p>21 Q. Why were you involved in providing that information  22 to the insurance company?</p> <p>23 A. He had asked me to work through the Exec-U-Flex  24 program to try and secure additional, I think it  25 was disability insurance beyond what was available</p>	<p style="text-align: right;">Page 181</p> <p>1. PricewaterhouseCoopers, which is the defendant in  2 this litigation. I just have a few follow-up  3 questions per the questions you were asked today.</p> <p>4 First of all, I just want to understand what  5 your role is versus the Compensation Committee a  6 bit better. You weren't actually a member of the  7 Compensation Committee; is that right?</p> <p>8 A. That's correct, I was not.</p> <p>9 Q. Okay. The members of the Compensation Committee  10 were a subset of the Board members?</p> <p>11 A. That's correct, all external Board members.</p> <p>12 Q. All external Board members.</p> <p>13 A. Yes.</p> <p>14 Q. Okay. And in your capacity as the head of Human  15 Resources, you would make recommendations to the  16 Compensation Committee; is that correct?</p> <p>17 A. I would bring information to them or make  18 recommendations, yes.</p> <p>19 Q. Okay. And some of the information that you would  20 bring to them was brought by information you  21 obtained from the outside compensation consultant  22 that you referred to this morning; is that right?</p> <p>23 A. That's correct.</p> <p>24 Q. And then in all instances was it your understanding  25 that any salary increases or benefits would have to</p>

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<p style="text-align: right;">Page 182</p> <p>1 be approved by the Compensation Committee?</p> <p>2 A. That was my understanding, yes.</p> <p>3 Q. You were not authorized to make those yourself, in</p> <p>4 other words; is that right?</p> <p>5 A. That's correct, I was not.</p> <p>6 Q. Those were made by the outside Board members who</p> <p>7 comprised the Compensation Committee?</p> <p>8 A. Yes.</p> <p>9 Q. And that was true both for executive salaries as</p> <p>10 well as benefits; is that right?</p> <p>11 A. That's correct, yes.</p> <p>12 Q. And the outside consultant that I just referred to</p> <p>13 that you were discussing this morning with</p> <p>14 Mr. Tamburri, that's MCG; right?</p> <p>15 A. Yes.</p> <p>16 Q. And we saw some of their documents this morning,</p> <p>17 right?</p> <p>18 A. Yes.</p> <p>19 Q. I believe you said this morning that MCG had</p> <p>20 performed a couple of studies for AHERF at your</p> <p>21 direction; is that right?</p> <p>22 A. Over the course of that ten-year period of time,</p> <p>23 yes, uh-huh.</p> <p>24 Q. Okay.</p> <p>25</p>	<p style="text-align: right;">Page 184</p> <p>1 A. Yes, I do.</p> <p>2 Q. And was it your understanding that they reached</p> <p>3 that conclusion based on a study that they had</p> <p>4 conducted?</p> <p>5 A. Yes, I would assume so, uh-huh.</p> <p>6 Q. Okay. And did you rely on that conclusion in</p> <p>7 making recommendations to the Compensation</p> <p>8 Committee?</p> <p>9 A. Yes, I would have.</p> <p>10 Q. And based on the information that you received from</p> <p>11 MCG, did you agree with that conclusion?</p> <p>12 A. Without going back through all the details, yes, I</p> <p>13 assume so.</p> <p>14 Q. Did you believe at the time that the compensation</p> <p>15 levels for the CEO and the CFO were reasonable and</p> <p>16 consistent with the policies established at AHERF</p> <p>17 and AGH?</p> <p>18 A. Yes.</p> <p>19 MR. TAMBURRI: I'm sorry, I didn't mean</p> <p>20 to interrupt. Were you asking at the time that you</p> <p>21 received this study?</p> <p>22 Q. (BY MS. DeMASI) Did you believe that at the time</p> <p>23 you received this study?</p> <p>24 A. Yes.</p> <p>25 Q. And did you believe that at all times that the</p>
<p style="text-align: right;">Page 183</p> <p>1 (Document was marked Deposition</p> <p>2 Exhibit Number 2501 for identification.)</p> <p>3</p> <p>4 Q. (BY MS. DeMASI) For the record I've handed you</p> <p>5 what's been marked as Exhibit 2501. Just take a</p> <p>6 second to look through that, Mr. Kasperbauer.</p> <p>7 A. This is a copy of a letter from David Bjork with</p> <p>8 MCG to me dated March 30th, 1995.</p> <p>9 Q. Okay. And around the time of 1995, had you asked</p> <p>10 Mr. Bjork or MCG to review the compensation</p> <p>11 letters -- to review the compensation levels for</p> <p>12 AHERF executives?</p> <p>13 A. Yes.</p> <p>14 Q. And is this the report that they gave you as a</p> <p>15 result of that?</p> <p>16 A. Yes, it is.</p> <p>17 Q. And if you turn to the last page of Exhibit 2501,</p> <p>18 the last paragraph states, "On the basis of this</p> <p>19 analysis," that's contained in Exhibit 2501, "we</p> <p>20 conclude that the total value of compensation and</p> <p>21 benefits paid and reported for the Chief Executive</p> <p>22 Officer and Chief Financial Officer of AGH for</p> <p>23 fiscal year 1993 were reasonable and consistent</p> <p>24 with the policy established by AHERF's and AGH's</p> <p>25 Board of Directors." Do you see that?</p>	<p style="text-align: right;">Page 185</p> <p>1 levels of compensation were reasonable and</p> <p>2 consistent?</p> <p>3 A. Based upon the recommendations of the consultants,</p> <p>4 yes.</p> <p>5 Q. And would that be true for all executive</p> <p>6 management, did you believe that the compensation</p> <p>7 levels of executive management were reasonable and</p> <p>8 fair?</p> <p>9 MR. TAMBURRI: Object to the form.</p> <p>10 A. Yes.</p> <p>11 Q. (BY MS. DeMASI) And is the same true of the</p> <p>12 benefit packages that were provided to executive</p> <p>13 management?</p> <p>14 A. Yes.</p> <p>15 MR. TAMBURRI: Same objection.</p> <p>16 Q. (BY MS. DeMASI) You believe that those were</p> <p>17 reasonable and fair?</p> <p>18 A. Yes.</p> <p>19 Q. And I take it you wouldn't have recommended the</p> <p>20 benefit packages or the compensation if you didn't</p> <p>21 believe that?</p> <p>22 A. Right. And as we found out today, there are</p> <p>23 certain things that I didn't know about that go</p> <p>24 beyond the scope of what was recommended.</p> <p>25 Q. But in terms of what you recommended and what the</p>

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<p style="text-align: right;">Page 186</p> <p>1 Board approved?</p> <p>2 A. Yes.</p> <p>3 Q. You believed that that was all reasonable and fair?</p> <p>4 A. Yes.</p> <p>5 Q. And did you believe that the levels of compensation</p> <p>6 being provided, of which you were aware, and the</p> <p>7 benefits being provided were comparable to similar</p> <p>8 organizations?</p> <p>9 MR. TAMBURRI: Object to the form.</p> <p>10 A. Yes.</p> <p>11 Q. (BY MS. DeMASI) And again, that was based on the</p> <p>12 work done by MCG?</p> <p>13 A. MCG, yes.</p> <p>14 Q. Did you form an opinion as to competence of MCG as</p> <p>15 a compensation consultant?</p> <p>16 A. Yes, I felt they were real good, very knowledgeable</p> <p>17 of the industry.</p> <p>18 Q. And they had particular expertise in health care as</p> <p>19 well?</p> <p>20 A. Yes. They, they were engaged by many, many large</p> <p>21 healthcare firms.</p> <p>22 Q. And their experience and specialization in</p> <p>23 healthcare was one of the reasons that you decided</p> <p>24 to retain MCG; is that correct?</p> <p>25 A. That's correct.</p>	<p style="text-align: right;">Page 188</p> <p>1 Committee; is that right?</p> <p>2 A. That's correct.</p> <p>3 Q. And in that capacity he had the authorization to</p> <p>4 approve levels of compensation and/or benefits?</p> <p>5 A. He did, yes.</p> <p>6 MS. DeMASI: Just keep that in front of</p> <p>7 you for one moment,</p> <p>8</p> <p>9 (Document was marked Deposition</p> <p>10 Exhibit Number 2502 for identification.)</p> <p>11</p> <p>12 Q. (BY MS. DeMASI) Have you had a chance to review</p> <p>13 Exhibit 2502, Mr. Kasperbauer?</p> <p>14 A. Yes, I have.</p> <p>15 Q. And is this the market review that's referred to in</p> <p>16 your memorandum that's Exhibit 2464?</p> <p>17 A. Yes, it is.</p> <p>18 Q. Is it the -- this Exhibit 2502 is the document that</p> <p>19 you referred to as market review done by MCG?</p> <p>20 A. That's correct.</p> <p>21 Q. And did you rely on this document and on MCG -- let</p> <p>22 me start again.</p> <p>23 Did you rely on Exhibit 2502 created by MCG in</p> <p>24 making recommendations for the Compensation</p> <p>25 Committee?</p>
<p style="text-align: right;">Page 187</p> <p>1 Q. Let me ask you to look back in your pile, if you</p> <p>2 will --</p> <p>3 A. Sure.</p> <p>4 Q. -- to Exhibit 2464.</p> <p>5 A. (Witness complies).</p> <p>6 Q. I'll just ask you one other question before we turn</p> <p>7 to that exhibit, Mr. Kasperbauer. Did you believe</p> <p>8 that MCG was a disinterested consultant?</p> <p>9 A. Yes.</p> <p>10 MR. TAMBURRI: Object to the form.</p> <p>11 Q. (BY MS. DeMASI) And, again, that's one of the</p> <p>12 reasons that you hired MCG?</p> <p>13 A. Yes.</p> <p>14 Q. Do you have Exhibit 2464 in front of you?</p> <p>15 A. Yes, I do.</p> <p>16 Q. And this, the exhibit that Mr. Tamburri asked you</p> <p>17 questions about earlier, in the second paragraph of</p> <p>18 this exhibit it states, "In response to a request</p> <p>19 from the Compensation Committee, MCG conducted a</p> <p>20 thorough market review and advanced a letter to WP</p> <p>21 Snyder III on October 4th, 1996." Do you see that?</p> <p>22 A. Yes, I do.</p> <p>23 Q. Who is Mr. Snyder?</p> <p>24 A. Mr. Snyder is the Chairman of the Board of AHERF.</p> <p>25 Q. And he was also a member of a Compensation</p>	<p style="text-align: right;">Page 189</p> <p>1 A. Yes.</p> <p>2 Q. And did you receive a copy of Exhibit 2502?</p> <p>3 A. Yes, I believe I did.</p> <p>4 Q. And you received it on or around October of 1996?</p> <p>5 A. Yes.</p> <p>6 Q. And would you have kept Exhibit 2502 in your files</p> <p>7 in the ordinary course of your business?</p> <p>8 A. Yes, I would.</p> <p>9 Q. And let me just ask you that same question with</p> <p>10 respect to Exhibit 2501, which you reviewed a</p> <p>11 moment ago, the March 30, 1995 analysis by MCG.</p> <p>12 A. Yes, I would have kept that in my files.</p> <p>13 Q. In your files in the ordinary course of your</p> <p>14 business? And you received that on or about</p> <p>15 March 30th, 1995?</p> <p>16 A. Yes.</p> <p>17 Q. Thank you.</p> <p>18</p> <p>19 (Document was marked Deposition</p> <p>20 Exhibit Number 2503 for identification.)</p> <p>21</p> <p>22 Q. (BY MS. DeMASI) I've handed you what we've marked</p> <p>23 as Exhibit 2503 and just ask you to review that.</p> <p>24 Do you recognize Exhibit 2503?</p> <p>25 A. Yes, I do.</p>

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<p style="text-align: right;">Page 190</p> <p>1 Q. And what is this Exhibit?</p> <p>2 A. This is a letter addressed to me from MCG, I</p> <p>3 believe David Bjork signed the letter, David Bjork,</p> <p>4 a partner with MCG. It's dated September 24th,</p> <p>5 1996, and it is essentially a proposal to assist</p> <p>6 the Compensation Committee in the review of</p> <p>7 competitiveness, reasonableness and appropriateness</p> <p>8 of executive compensation.</p> <p>9 Q. And would you have received this document on</p> <p>10 September of 1996?</p> <p>11 A. That's correct.</p> <p>12 Q. And you would have kept it in your files in the</p> <p>13 ordinary course of your business?</p> <p>14 A. Yes, I would have.</p> <p>15 Q. And had you requested MCG to prepare a proposal to</p> <p>16 assist the Compensation Committee?</p> <p>17 A. Yes, we did.</p> <p>18 Q. And did AHERF retain MCG to perform that analysis?</p> <p>19 A. Yes, we did.</p> <p>20 Q. And did you rely on that analysis in making</p> <p>21 recommendations to the Compensation Committee?</p> <p>22 A. Yes, we did.</p> <p>23 Q. If you'd turn to Page 5 of Exhibit 2503.</p> <p>24 A. (Witness complies).</p> <p>25 Q. Is that section entitled "MCG's Capabilities"; do</p>	<p style="text-align: right;">Page 192</p> <p>1 performed in 1995; is that right?</p> <p>2 A. That's correct.</p> <p>3 Q. If you'll look at the first paragraph of the</p> <p>4 letter, the September 20th letter that's at the</p> <p>5 front of this exhibit. It states, "In response to</p> <p>6 your letter dated December 8th, 1995"; was that</p> <p>7 your letter to Coopers &amp; Lybrand asking Coopers &amp;</p> <p>8 Lybrand to perform these procedures?</p> <p>9 A. That's correct.</p> <p>10 Q. And is that essentially an engagement letter for</p> <p>11 these procedures?</p> <p>12 A. Yes.</p> <p>13 Q. And does that engagement letter set forth the scope</p> <p>14 of the engagement?</p> <p>15 A. Yes.</p> <p>16 Q. And then the last sentence of that paragraph says,</p> <p>17 "A copy of your letter"; does that mean -- does</p> <p>18 that refer to your letter of September 8th?</p> <p>19 A. I'm sorry, where are you?</p> <p>20 Q. The last sentence of the first paragraph. The</p> <p>21 parenthetical.</p> <p>22 A. Oh. "A copy of your letter has been included with</p> <p>23 attachments to this letter." Yes, that would be</p> <p>24 referring to my letter.</p> <p>25 Q. Okay. It says, "Copy of your letter and</p>
<p style="text-align: right;">Page 191</p> <p>1 you see that?</p> <p>2 A. Yes.</p> <p>3 Q. It says, "MCG/Healthcare is the largest executive</p> <p>4 compensation firm in the world focused exclusively</p> <p>5 on health care and is widely recognized as the</p> <p>6 leading authority on executive compensation for</p> <p>7 health care organization."</p> <p>8 Mr. Kasperbauer, in the 1995, 1996, 1997 time</p> <p>9 frame, did you consider MCG to be a leading</p> <p>10 authority on executive compensation for health care</p> <p>11 organizations?</p> <p>12 A. Yes.</p> <p>13 MR. TAMBURRI: Object to the form.</p> <p>14 A. Yes, I did.</p> <p>15 Q. (BY MS. DeMASI) Put that aside.</p> <p>16 Mr. Kasperbauer, let me ask you to find in your</p> <p>17 big stack there Exhibit 2478 and 2482.</p> <p>18 A. (Witness complies). You said 2482?</p> <p>19 Q. I did. Do you recall earlier today Mr. Tamburri</p> <p>20 asking you some questions about agreed-upon</p> <p>21 procedures performed by Coopers &amp; Lybrand?</p> <p>22 A. Yes.</p> <p>23 Q. Okay. I just want to ask you a couple follow-up</p> <p>24 questions about that. First, if you'd look at</p> <p>25 Exhibit 2478, there's an agreed-upon procedures</p>	<p style="text-align: right;">Page 193</p> <p>1 Attachments A and B have been included as Exhibit 2</p> <p>2 of this letter." Do you see a copy of your letter</p> <p>3 attached to this document?</p> <p>4 A. No, I do not.</p> <p>5 Q. Do you see Attachment B included in this document,</p> <p>6 included in this exhibit?</p> <p>7 A. No, I do not.</p> <p>8 Q. Does that indicate to you that this exhibit is</p> <p>9 incomplete, at least with respect to the letter and</p> <p>10 to Attachment B?</p> <p>11 A. Yes.</p> <p>12 Q. Okay. You would have received those two</p> <p>13 attachments at the time?</p> <p>14 A. Yes.</p> <p>15 Q. And you received this. Now, I think you referred</p> <p>16 earlier to the agreed-upon procedure as an audit;</p> <p>17 do you recall that?</p> <p>18 A. Yes.</p> <p>19 Q. Okay. Did you understand, in fact, that the</p> <p>20 agreed-upon procedures were not an audit?</p> <p>21 A. What I understand agreed-upon procedure to be is,</p> <p>22 is that a professional engages in a review of steps</p> <p>23 in a process. That's my understanding of</p> <p>24 agreed-upon procedures. Did we follow the</p> <p>25 procedures that were mapped out.</p>

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TAB 209



**ALLEGHENY HEALTH, EDUCATION & RESEARCH FOUNDATION (AHERF)  
PERFORMANCE MEASURES  
FISCAL YEAR 1996**

The following quantitative performance measures, which are compiled primarily from information contained within the audited financial statements, where appropriate, and which have been reviewed and verified by Coopers & Lybrand, are intended to assist in the annual evaluation of AHERF's performance and that of its key managers and employees. These performance measures, which are consistent amongst all AHERF business units, will be used in conjunction with Mr. Abdelhak's formal assessment of AHERF's operating results to assess overall performance during fiscal year 1996. Mr. Abdelhak will be present at the meeting to discuss his formal assessment of operating results along with any other relevant aspects of AHERF's overall performance.

1. Achieve a rate of increase in the cost of health care services provided, as measured by the cost per adjusted discharge, which is lower than the change in the medical component of the consumer price index.

	<u>FY 96 Actual</u>	<u>FY 95 Actual</u>	<u>Decrease</u>	<u>Percent Decrease</u>
Cost per adjusted discharge	\$ 6,717	\$ 6,880	(\$ 163)	(2.4%)

The cost per adjusted discharge decreased 2.4%, while the medical component of the consumer price index increased 4.6%.

2. Achieve favorable overall operating results, as measured by net income, in excess of established targets.

	<u>FY 96 Actual</u>	<u>FY 96 Target</u>	<u>Surplus</u>
Net income exclusive of extraordinary loss on debt refinancing	\$ 20,697,000	\$ 15,159,000	\$ 5,538,000

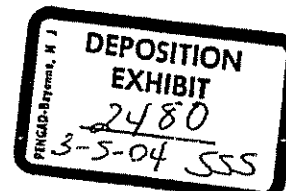
Net income exceeded the target by \$5,538,000.

3. Achieve a favorable trend in financial viability, as measured by an increase in net equity, which is greater than the change in the consumer price index.

	<u>June 30, 1996</u>	<u>June 30, 1995</u>	<u>Increase</u>	<u>Percent Increase</u>
Net equity exclusive of unusual items	\$ 728,813,000	\$ 711,732,000	\$ 17,081,000	2.4%

Net equity increased 2.4%, while the consumer price index increased 2.6%.

The lower than expected increase in net equity (2.4% vs. a 2.6% increase in the consumer index) is due largely to AIHG's financial results, which are significantly influenced by the start-up operations of the expanding physician network.



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22680

**ALLEGHENY HEALTH, EDUCATION & RESEARCH FOUNDATION (AHERF)**  
**PERFORMANCE MEASURES**  
**FISCAL YEAR 1996**  
**Page 2**

4. Maintain or enhance levels of uncompensated care as a percent of patient service revenue.

	<u>FY 96</u> <u>Actual</u>	<u>FY 95</u> <u>Actual</u>
Uncompensated care as a percent of net patient service revenue	6.0%	5.2%

Uncompensated care as a percent of net patient service revenue increased from 5.2% to 6.0%.

5. Maintain or increase occupancy as measured by admissions.

	<u>FY 96</u> <u>Actual</u>	<u>FY 95</u> <u>Actual</u>	<u>Increase</u>
Admissions	91,133	88,375	2,758

Admissions increased 2,758 or 3.1%.

6. Maintain or enhance the level of external funds used for research.

	<u>FY 96</u> <u>Actual</u>	<u>FY 95</u> <u>Actual</u>	<u>Increase</u>
Level of external funds used for research	\$ 57,079,000	\$ 45,589,000	\$ 11,490,000

Levels of external funds used for research increased \$11,490,000.

AA:kw  
 \96perfmeas.ahf



TAB 210

**ALLEGHENY  
HEALTH,  
EDUCATION AND  
RESEARCH  
FOUNDATION**

**Dwight Kasperbauer**  
Executive Vice President and  
Chief Human Resources Officer

**Fifth Avenue Place, Suite 2900  
120 Fifth Avenue  
Pittsburgh, PA 15222-3009  
Telephone (412) 359-3137**

**Broad & Vine Streets  
Mail Stop 490  
Philadelphia, PA 19102-1192  
Telephone (215) 762-3060**

September 6, 1996

William Buettner  
Partner  
Coopers & Lybrand  
600 Grant Street - 35th Floor  
Pittsburgh, PA 15219


Dear Mr Buettner

Coopers & Lybrand has been asked to perform certain agreed-upon procedures pertaining to the performance measures used by the AHERF and subsidiary Compensation Committees to evaluate management's performance and determine management incentive payments. Specifically, we are requesting that Coopers & Lybrand confirm, through agreement to underlying source documents, the performance measures as provided on Attachment A. In addition, we are requesting that you verify through recalculation and agreement to source documents the participant incentive plan compensation as provided on Attachment B.

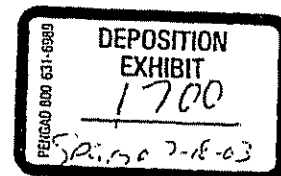
The source documents for the quantitative performance measures are available from Al Adamczak in Corporate Finance. The source documents for the calculation of participants' payments are maintained in the Corporate Payroll Department.

I look forward to receiving your report and will include it with the full report to the various Compensation Committees at their upcoming meetings

Sincerely,

  
Dwight Kasperbauer

Attachments  
cc: Al Adamczak



DBR-AA  
22694

**ALLEGHENY HEALTH EDUCATION & RESEARCH FOUNDATION  
MEMORANDUM**

FINAL

DATE: September 20, 1996

TO: Dwight Kasperbauer  
Executive Vice President &  
Chief Human Resource Officer

FROM: Al Adamczak *Al*  
Senior Director, Accounting & Financial Reporting  
Pittsburgh and AHERF

RE: FY96 Business Unit Performance Indicators

Following are the FY96 performance targets that are of a financial nature as compiled and reviewed by the AHERF Finance Department. It should be noted that information for OVHS&E is calendar year 1995 and 1996 which corresponds to their official year end

	ADMISSIONS (PATIENT VOLUME/UTILIZATION)					
	AGH	Allegheny University Hospitals	SCHC	Allegheny University	AIHG	Total AHERF OVHS&E
FY96 Actual	30,302	50,362	10,469	-	-	91,133
FY95 Actual	30,551	47,795	10,029	-	-	88,375
Increase/(Decrease)	(249)	2,567	440	-	-	2,758
% Increase/(Decrease)	(0.82%)	5.37%	4.39%	-	-	3.12%
						(3.99%)

	COST PER ADJUSTED DISCHARGE (CPAD) (Cost Control)					
	AGH	Allegheny University Hospitals	SCHC	Allegheny University	AIHG	Total AHERF OVHS&E
FY96 Actual	\$5,896	\$7,005	\$8,846	-	-	\$6,717
FY95 Actual	6,111	7,151	8,764	-	-	6,880
Increase/(Decrease)	(\$215)	(\$146)	\$82	-	-	(\$163)
% Increase/(Decrease)	(3.52%)	(2.04%)	0.94%	-	-	(2.37%)
Medical Mkt CPI Inc	4.60%	4.60%	4.60%	-	-	4.60%
						4.60%

	NET INCOME (OPERATING PERFORMANCE)					
	AGH	Allegheny University Hospitals	SCHC	Allegheny University	AIHG	Total AHERF OVHS&E
FY96 Actual	\$6,321,000	\$17,604,000	\$15,433,000	(\$1,794,000)	(\$40,875,000)	\$20,697,000
FY96 Projection	2,859,000	16,776,000	14,729,000	(2,800,000)	(37,930,000)	15,139,000
Favorable/(Unfavorable) Variance	\$3,462,000	\$828,000	\$704,000	\$1,006,000	(\$2,945,000)	\$5,558,000
						(\$1,525,000)

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## MEMO RE: FY96 BUSINESS UNIT PERFORMANCE INDICATORS (9/20/96)

PAGE 2

	NET EQUITY (Financial Viability)						
	AGH	Allegheny University Hospitals	SCHC	Allegheny University	ABIG	Total AHERF	OVHS&E
FY96 Actual*	\$254,577,000	\$157,020,000	\$99,393,000	\$90,769,000	(\$29,722,000)	\$728,813,000	\$44,217,000
FY95 Actual	252,931,000	140,231,000	87,251,000	83,560,000	11,163,000	\$711,732,000	45,203,000
Increase/(Decrease)	1,646,000	16,789,000	12,142,000	7,209,000	(40,885,000)	17,081,000	(986,000)
% Increase/(Decrease)	0.65%	11.97%	13.92%	8.63%	(366.25%)	2.40%	(2.18%)
CPI Inc	2.70%	2.50%	2.50%	2.50%	2.60%	2.60%	2.60%

	UNCOMPENSATED CARE						
	AGH	Allegheny University Hospitals	SCHC	Allegheny University	ABIG	Total AHERF	OVHS&E
FY96 Actual							
Net Patient Service Revenue	\$394,561,000	\$618,214,000	\$134,149,000	\$131,453,000	\$74,097,000	1,352,474,000	\$93,920,000
Uncompensated Care	20,489,000	41,677,000	6,777,000	11,025,000	1,137,000	81,105,000	7,186,000
Percentage	5.19%	6.74%	5.05%	8.39%	1.53%	6.00%	7.65%
FY95 Actual							
Net Patient Service Revenue	405,427,000	584,808,000	127,317,000	105,282,000	23,172,000	1,246,006,000	97,717,000
Uncompensated Care	21,708,000	26,638,000	7,206,000	9,109,000	150,000	64,811,000	10,305,000
Percentage	5.35%	4.55%	5.66%	8.65%	0.65%	5.20%	10.55%

	LEVEL OF EXTERNAL FUNDS SECURED FOR RESEARCH						
	AGH	Allegheny University Hospitals	SCHC	Allegheny University	ABIG	Total AHERF	OVHS&E
FY96 Actual	\$8,789,000	-	-	\$43,147,000	-	\$51,936,000	N/A
FY95 Actual	\$11,678,000	-	-	\$33,911,000	-	\$45,589,000	N/A

\*FY 96 actual net equity is exclusive of transfers to affiliates, unusual items and cumulative efforts of new FASB adoptions

Should you have any questions or comments relative to the preceding, please feel free to contact me at your convenience  
Thank you

AA kw  
s Wm123196perf1g1

cc Steve Spargo

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22696

TAB 211

MINUTES OF THE COMPENSATION COMMITTEE MEETING OF  
ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION  
Tuesday, March 7, 1995 - 9:30 A.M. - ALLEGHENY GENERAL HOSPITAL

A meeting of the Allegheny Health, Education and Research Foundation Compensation Committee was held on Tuesday, March 7, 1995 at 9:30 A.M. in the Kent Room at Allegheny General Hospital.

Members Present:

J. David Barnes  
Douglas D. Danforth  
W.P. Snyder III

Invited Guests:

Sherif S. Abdelhak  
Dwight Kasperbauer  
David W. McConnell  
Nancy A. Wynstra

Members Absent:

Graemer K. Hilton  
Francis B. Nimick, Jr.

I. Opening of the Meeting

The meeting was called to order by Chairman, W.P. Snyder III, who declared that a quorum was present and the meeting was competent to proceed. Nancy Wynstra maintained the minutes of the meeting.

II. Approval Items

A. Minutes

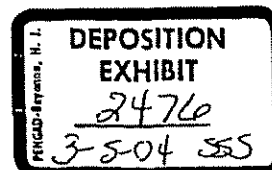
The minutes from the October 3, 1994 meeting of the Compensation Committee were approved as presented.

B. Long-Term Incentive Plan Award Distribution

Mr. Abdelhak presented to the Committee a report on the performance of the organization for Fiscal Years 1991 to 1995. The report is presented to assist the Committee in evaluating whether or not the long-term award accruals approved in Fiscal Year 1991 should be distributed to the involved executives at this time, which, pursuant to the terms of the Long-Term Incentive Plan, is five years after the initial accrual.

Following discussion and upon motion duly made and seconded the Committee approved the following resolution.

WHEREAS, The Compensation Committee adopted a Key Management Long-Term Incentive Plan to encourage and reward senior managers for the



JD-HL 0020906

Minutes of the AHERF Compensation Committee  
Tuesday, March 7, 1995 - 9:30 a.m.  
Page 2

attainment of established long-term objectives; and,

WHEREAS, The organization has received a favorable ruling from the IRS concerning such Plan; and,

WHEREAS, The Plan provides for the distribution of accrued incentive awards subject to the Compensation Committee's determination of management performance; and,

WHEREAS, An assessment of progress concerning quality of care, level of charity care, excellence in educational and research programs and financial viability indicates that the system has been and continues to be effectively managed in the long-term best interests of patients, students and staff.

NOW, THEREFORE, BE IT RESOLVED, That the Compensation Committee authorizes the distribution of accrued long-term incentive awards for Fiscal Year 1991 plus accrued interest to the following individuals:

NAME

Sherif S. Abdelhak  
D. Walter Cohen, D.D.S.  
Thomas P. Galinski  
Dwight Kasperbauer  
Donald Kaye, M.D.  
David W. McConnell  
Leonard L. Ross, Ph.D.  
Anthony M. Sanzo  
Nancy A. Wynstra

FURTHER RESOLVED, That the Committee authorizes distribution of 100% of the deferred award amount, based on its evaluation of management's progress and performance each year for the prior five years; and

FURTHER RESOLVED, That the Committee directs that the list of individuals and the specific awards authorized be appended in a sealed envelope to the original minutes of this meeting.

JD-HL 0020907

Minutes of the AHERF Compensation Committee  
Tuesday, March 7, 1995 - 9:30 a.m.  
Page 3

- C. Mr. Abdelhak presented an overview of the proposed revisions to the Annual and Long-Term Incentive Plans, noting that these proposed revisions have been developed as a result of concerns expressed by the Committee that the prior plans did not reflect an appropriate balance between the various mission elements of the organization and the need for the organization to retain financial strength. Mr. Abdelhak noted that the trigger for the free care related objective had been changed from a specific number to a requirement that no person is refused service because of inability to pay. Mr. Abdelhak then reviewed with the group the financial guidelines which he has given to the organization's executives and indicated that he is, through management, assuring an appropriate balance between the various incentive award objectives. He also noted that, in order to maintain Internal Revenue Service approval of the Plan, it is important that the commitment to quality and to significant amounts of charitable care be appropriately reflected in the Plan.

The Committee requested that different terminology than Meets Expectations and Exceeds Expectations be used to reflect performance. The Committee accepts and hereby approves revisions of the Management Incentive Plan as presented at this meeting.

Following discussion, and upon motion duly made and seconded, the Committee approved the following resolution.

RESOLVED, that the AHERF Compensation Committee accepts and hereby approves the revisions to the Management Annual Incentive Plan and the Management Long-Term Incentive Plan as presented at this meeting, contingent upon the substitution of other terms for the terms "acceptable progress," "achieved expectations" and "exceeded expectations" as set forth in the draft plan; and

FURTHER RESOLVED, that the Secretary is directed to attach a copy of the approved Plans to the minutes of this meeting.

D. Executive Compensation Cost of Living Adjustment

Mr. Kasperbauer noted that the Committee had agreed that, until such time as a new market study to measure the competitive position of AHERF's senior management salaries is conducted, which will not occur any earlier than January,

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Minutes of the AHERF Compensation Committee

Tuesday, March 7, 1995 - 9:30 a.m.

Page 4

1997, salary increases for senior management are limited to cost of living adjustments. He indicated that a 3.25% cost of living adjustment was recommended for eligible individuals, to be effective on their anniversary date.

Following discussion and upon motion duly made and seconded the Committee approved cost of living adjustments of 3.25% for Sherif S. Abdelhak, D. Walter Cohen, D.D.S., Thomas P. Galinski, Dwight Kasperbauer, Donald Kaye, M.D., Iqbal F. Paroo, Leonard L. Ross, Ph.D., Anthony M. Sanzo, Nancy A. Wynstra, with such adjustment to be effective on the individual's anniversary date. The Committee agreed that this approach to compensation adjustments would be continued for one additional year but requested that a comparative compensation study be commenced at that time.

E. Human Virology Institute Recruitment

Mr. Abdelhak presented information with respect to the potential recruitment of three senior researchers in the area of Human Virology. He noted that, in order to provide security to the individuals involved, it would be necessary to offer them five-year continuing contracts. In addition, a special laboratory would need to be constructed for conducting the research involved and a number of people who currently work with these researchers would need to be recruited to the organization. Mr. Abdelhak noted that, while this recruitment would be expensive, it would significantly enhance the organization's reputation and lead to receipt of substantial research funding.

Following discussion and upon motion duly made and seconded the Committee approved offering five-year continuing contracts to Robert C. Gallo, M.D., Robert R. Redfield, M.D., and William A. Blattner, M.D.

F. Information Items

A. Non-Compete Plan Investment Report

As requested by the Committee, Mr. Kasperbauer presented a report on the investment performance of the funds invested in the Non-Compete Plan account for Messrs. Abdelhak and Kasperbauer and Ms. Wynstra.

JD-HL 0020909

Minutes of the AHERF Compensation Committee  
Tuesday, March 7, 1995 - 9:30 a.m.  
Page 5

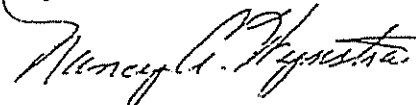
B. Review of AHERF and Subsidiary Meeting Dates and Activities

Mr. Kasperbauer briefly reviewed the calendar of Compensation Committee meetings for 1995 and called the attention of the Committee to the draft minutes of the subsidiary compensation committees.

At approximately 10:20 a.m., the Committee went into Executive Session and all management staff other than Mr. Abdelhak were excused.

The meeting was adjourned at approximately 11:20 a.m.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Nancy A. Wynstra".

Nancy A. Wynstra, Esquire

NAW:kss  
Enclosures  
3-10-95

JD-HL 0020910

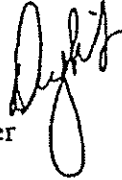
**A H E R F**  
*Allegheny Health, Education  
and Research Foundation*

120 Fifth Avenue Place  
Suite 2900  
Pittsburgh, PA 15222-3009

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**PERSONAL AND CONFIDENTIAL**

**TO:** David M. Deasy  
Director, Corporate Payroll

**FROM:** Dwight Kasperbauer  
Executive Vice President  
and Chief Human Resources Officer 

**SUBJECT:** Key Management Long-Term Incentive Plan - Fiscal Year 1991

**DATE:** March 7, 1995

The amounts on the attached document have been approved by the AHERF Compensation Committee for distribution.

Please forward the checks to my attention on or about July 3, 1995.

Thank you in advance.

DK:te  
Attachment

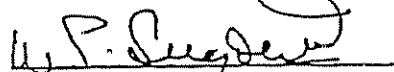
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JD-HL 0020911

## ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

## Key Management Long-Term Incentive Plan - Fiscal Year 1991

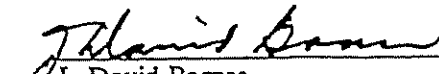
Executive Name	Accrued Award
Sherif S. Abdelhak	\$116,479
D. Walter Cohen, D.D.S.	\$ 41,617
Thomas P. Galinski	\$ 32,817
Dwight Kasperbauer	\$ 60,856
Donald Kaye, M.D.	\$ 65,367
David W. McConnell	\$ 77,624
Leonard L. Ross, Ph.D.	\$ 56,471
Anthony M. Sanzo	\$ 69,916
Nancy A. Wynstra	\$ 63,498
<b>TOTAL</b>	<b>\$584,645</b>

Percent accrued award authorized for distribution 100 %
  
 W.P. Snyder III

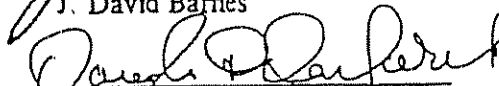
Chairman, Compensation Committee

Mar. 7, 1995:  
 Date

Members:

  
 J. David Barnes

3.7.95  
 Date

  
 Douglas D. Danforth

3.7.95  
 Date

Graemer K. Hilton

Date

Francis B. Nimick, Jr.

Date

DK lss Keymgmt 2-21 96

JD-HL 0020912

\*ALLEGHENY HEALTH, EDUCATION AND  
 \*RESEARCH FOUNDATION  
 \*KEY MANAGEMENT LONG TERM  
 \*INCENTIVE PLAN

	FY 1991 Award	FY 1992 Award	FY 1993 Award	FY 1994 Award	Total
Executive					
Abdelhak	\$104,691	\$117,638	\$110,979	\$132,608	\$465,915
McConnell	\$76,935	\$71,902	\$78,780	\$82,880	\$310,498
Sanzio	\$58,432	\$48,262	\$71,199	\$79,772	\$279,664
Gallinski	\$38,536	\$45,308	\$47,225	\$0	\$131,269
McHester	\$47,646	\$39,194	\$42,009	\$40,349	\$169,400
Wynstra	\$57,702	\$56,657	\$45,042	\$74,392	\$253,992
Kasperbauer	\$50,804	\$59,760	\$63,968	\$69,412	\$243,425
Cohen	\$53,437	\$59,160	\$0	\$53,872	\$166,469
Ross	\$46,266	\$59,160	\$55,811	\$64,646	\$235,884
Welton	\$42,038	\$43,915	\$21,543	\$41,590	\$149,086
Cumming	\$0	\$0	\$0	\$0	\$0
Dionisio	\$53,563	\$51,196	\$48,298	\$46,620	\$199,677
Rawson	\$33,656	\$32,338	\$32,199	\$31,080	\$129,473
Kaye	\$38,348	\$73,313	\$71,696	\$76,114	\$281,470
Bland	\$43,915	\$43,915	\$44,864	\$49,728	\$188,507
McKair	\$0	\$0	\$42,932	\$41,440	\$84,372
Total	\$702,132	\$821,520	\$796,545	\$886,903	\$3,209,100

Award 2  
6-30-95

\$116,479 ✓  
 \$77,624  
 \$49,916  
 \$32,817  
 \$42,350  
 \$43,698  
 \$60,656  
 \$41,617  
 \$56,471  
 \$37,272  
 \$0  
 \$49,919  
 \$32,368  
 \$43,367  
 \$0  
 \$0  
 \$746,535

JD-HL 0020913

MANAGEMENT ANNUAL INCENTIVE PLAN  
ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION  
ADMINISTRATIVE GUIDE

1. PURPOSE

The AHERF Management Annual Incentive Plan is intended to enhance the Organization's ability to achieve its mission and charitable purpose of promoting the general health of both present and future generations of the communities it serves. Specific Plan objectives are to:

- Reinforce the Organization's commitment to excellence in all of its patient care, education and research activities;
- Focus the attention of senior management on maintaining financial viability and achieving Organizational outcomes necessary to support the Organization's mission;
- Encourage teamwork and personal achievement; and,
- Enhance the Organization's ability to attract and retain high quality executive talent by providing Award opportunities commensurate with the Organization's management challenge and performance.

The Plan is designed to provide guidance to the various constituent components of AHERF. In application, it is subject to interpretation by the Business Unit Compensation Committees; however, final determination of any matters of interpretation rest with the AHERF Compensation Committee.

2. DEFINITIONS

"AHERF Compensation Committee" refers to the Compensation Committee of the Board of Trustees of the Organization, a committee made up of outside directors who receive no compensation from the Organization.

"Award" refers to the calculated incentive amount earned by and paid to a Participant under the terms and provisions of this Plan.

"Base Salary" refers to annualized base rate in effect at the close of the fiscal year, exclusive of the value of any basic or supplemental employee benefits, but inclusive of any base earnings deferred to a subsequent year in accordance with any Organization-sponsored qualified tax deferred Plan(s).

"Business Unit" refers to any component of AHERF recognized as a distinct operating unit for purposes of this Plan.

"Business Unit Compensation Committee" refers to the Committee of external trustees selected to oversee executive compensation within the relevant business unit of AHERF.

"Goal Weight" refers to a weight assigned to reflect the impact and degree of importance attached to a goal: (1) moderate, (2) high, and (3) essential.

"Mission Objectives" refer to the broad based mission oriented categories within which specific annual performance Goals are developed by each Business Unit

"Must Goals" refers to Business Unit and/or Organizational Performance Goals which must be fully achieved in order for the appropriate unit to qualify for any Award.

"Organization" refers to AHERF and its subsidiaries.

"Organization Appraisal" refers to the annual review of performance to Plans/Goals which occur at the subsidiary and AHERF level.

"Organizational Performance Goals" or "Goals" refer to the specific performance measurement criteria approved by the Committee at the start of the fiscal year for purposes of Award determination under this Plan.

"Participant" refers to an employee of the Organization designated by the Committee to participate in the Plan.

"Performance Appraisal" refers to the Participant's annual review, conducted by his or her immediate superior, for the purpose of assessing performance with respect to his or her total job responsibilities.

"Plan" refers to the AHERF Management Annual Incentive Plan as described in this document.

"Plan Year" refers to the Organization's Fiscal Year.

"Planning Calendar" refers to the schedule of events in the planning, performance evaluation and incentive determination cycle (Appendix A).

"Work Unit" refers to a single entity or multiple entities which when combined, represents organization(s) upon which the individual participant's performance is measured. For example, a Department Chair's Work Unit may be 75% the department and 25% the school. A hospital system executive's Work Unit may be 100% the hospital.

### 3. ELIGIBILITY

Plan eligibility is extended to employees of the Organization (or any of its subsidiaries) who, in the opinion of the Business Unit, have the opportunity to significantly impact the accomplishment of the Organization's mission. In general, the eligible group includes Academic/Clinical Chairs and employees in executive salary grades 4 and above or other designated key employees who play crucial roles in the attainment of the Organization's Goals.

It is the intent that each Participant be notified in writing of his or her eligibility, Award opportunity and all relevant Business Unit performance goals within 60 days of the start of the Plan Year.

### 4. MISSION OBJECTIVES

Awards may be paid to the Participants provided the AHERF Compensation Committee determines that the Organization is satisfying its Mission Objectives. Mission performance will be evaluated in light of the following:

- No patient will be refused service because of the inability to pay.
- Quality of care is maintained or enhanced as measured by

- Patient/client satisfaction indices;
- Full accreditation by the Joint Commission on Accreditation of Healthcare Organizations and other relevant Organizations;
- Institutional quality scores (e.g., mortality, nosocomial infections, unplanned re-admissions, drug reactions) at satisfactory levels as determined by appropriate business unit Quality Assurance Committees.
- The commitment to research and teaching is maintained or enhanced;
- Long-term Organizational viability as measured by financial indicators is maintained or enhanced.

The committee(s) will annually review the performance of the Business Units and its senior officers to make a determination if the mission requirements have been met and that Goals specified in the annual performance Plan have been achieved. If so, the committee(s) will authorize calculation of Awards pursuant to the methods described in the Plan.

#### 5. PERFORMANCE PLANNING AND MEASUREMENT

Each CEO, in concert with the System CEO, will develop Organizational Goals for his or her Business Unit consistent with the System Mission Objectives and assign weights, i.e., 1) moderate, 2) high, 3) essential, indicating the impact of the goal on the organization's mission. The Goals of each Business Unit will be the measure upon which the individual CEO's performance will be evaluated. (See Appendix B for format). Each participant throughout the System will likewise develop goals and objectives in concert with his or her supervisor.

The System CEO will annually evaluate the results of each Business Unit and arrive at unit performance score considering both the weight of the goal and achievement. Each goal will be assigned one of the following scores.

- o - Unacceptable Performance
- 1 - Acceptable Progress
- 2 - Achieved Expectations
- 3 - Exceeded Expectations

A weighted average score will determine the Work Unit Score category. The Business Unit Compensation Committee will validate the performance evaluations conducted by the CEO. The AHERF Board Chairman will evaluate and the AHERF Compensation Committee will validate the System CEO's performance.

#### 6. ORGANIZATION PERFORMANCE THRESHOLDS: MUST GOALS

Notwithstanding the calculations described in Section 8, no Awards will be payable under the Plan if the Organization or Business Units fail to achieve any Board of Trustee-determined Must Goals. For example, if the Organization fails to provide care to any individual because of his/her ability to pay or fails to maintain hospital or academic accreditation, no awards will be authorized within that Business Unit.



## 7. INDIVIDUAL PERFORMANCE THRESHOLD

Regardless of the level of performance achieved against overall Organization and Business Unit objectives, no Award will be paid to a Participant who fails to achieve at least an "Acceptable Progress" rating on his/her individual Performance Appraisal for the year. Such Performance Appraisal shall include consideration of both achievement against the Participant's objective performance Goals, as well as subjective factors.

## 8. TARGET AWARD LEVELS

The table below establishes the range of Awards to be available to individuals dependent upon Work Unit performance. Business Unit performance will be used to determine the Award range for participants who function primarily within the Business Unit. Participant's performance which may materially impact or influence other entities will have Work Unit accountabilities adjusted to reflect the relationship (See Appendix C). Individual evaluations will be based on achievement of specific individual objectives established at the start of the fiscal year, as well as a subjective year-end assessment of the Participant's overall performance during the year.

Incentive Awards for CEOs and senior AHERF executives will be apportioned by the allocation of responsibility and interdependence among the units. For example, a portion of the hospital CEO's Award is dependent on the success of the university (see Appendix C for format). The relative weight to be assigned to each Organization may differ by CEO, based upon the specific role and responsibilities of each individual within the Organization.

TABLE 1\*

WORK UNIT EVALUATIONS	INDIVIDUAL EVALUATION		
	ACCEPTABLE PROGRESS	ACHIEVED EXPECTATIONS	EXCEEDED EXPECTATIONS
Acceptable Progress 1.0 - 1.66 +	5% 0% - 10%	10% 5% - 15%	15% 10% - 20%
Achieved Expectations 1.67 - 2.33 +	15% 10% - 20%	20% 15% - 25%	25% 20% - 30%
Exceeded Expectations 2.34 - 3.0 +	25% 20% - 30%	30% 25% - 35%	35% 30% - 40%

\* Percents indicate percent of base salary.

+ Final weighted score from evaluation of performance goals.

The System CEO, subject to approval by the Compensation Committee, may adjust the Business Unit's CEO's incentive Award to reflect the individual CEO's personal performance in achieving Business Unit results. The Business Unit CEO, subject to the approval of the committee may adjust the Award to the Participant giving consideration to factors including total annual compensation or other relevant factors.

9. MAXIMUM AWARD

Each Participant may be eligible to achieve an Award pursuant to the categories and ranges on Table 1, Page 4; however, in no case may the combination of base pay and annual incentive Award exceed 1.5 times the 75th percentile (market price) for the position. The AHERF Compensation Committee may elect to revise the maximum Award, as changing business conditions warrant. Further, the Committee may determine, in its sole discretion, if Awards in excess of the maximum are appropriate for any Participant as a reward for Organization and/or individual performance in any year.

10. PLAN FUNDING

Estimated Awards under the Plan will be accrued monthly and charged as an expense against the income statement of the Organization and the applicable business unit. Accruals of Awards will not imply vesting of any individual Awards to Participants. Vesting occurs only upon completion of the fiscal year, following the Compensation Committee's review of the extent to which performance objectives have been met, and their decisions regarding individual Awards to be paid.

11. AWARD PAYMENT

If the Compensation Committee determines that Awards should be made, earned Awards will be paid in cash within 150 days following the end of the fiscal year, unless payments are deferred under an Organization-sponsored deferral Plan.

12. NEW HIRES AND PROMOTIONS

Individuals hired or promoted into positions that would qualify for Plan participation will be added to the Plan, subject to the approval of the Committee. Internal promotions will be considered a Participant for the entire year and new hires will participate on a prorated basis according to the months employed in the fiscal/Plan year.

13. TERMINATION OF EMPLOYMENT

If termination of a Participant's employment occurs during the fiscal year by reason of death, disability, or normal retirement (consistent with the Organization's then current provisions for disability and normal retirement), the Participant (or the Participant's beneficiary or estate in the event of death) will be eligible to receive a prorata Award for the year based on time employed and objectives accomplished during the year.

A Participant who terminates employment with the Organization prior to the end of the fiscal year for any other reason (whether voluntarily or involuntarily) will forfeit the opportunity to earn an Award under the Plan for that year. Participants who terminate after the close of the fiscal/Plan year but before approval of Award will be eligible for payment based upon fiscal/Plan Year performance.

Notwithstanding any other provision of the Plan, the Committee may, in its sole discretion, permit continued participation, proration or early distribution (or a combination thereof) of Awards which would otherwise be forfeited.

#### 14. ADJUSTMENTS

If an extraordinary event occurs during a fiscal year which significantly alters the basis upon which the Organization or Business Unit performance levels were established for the year, the AHERF Compensation Committee, in its sole discretion, may make adjustments in such performance levels to the extent it deems appropriate (whether before or after the end of the fiscal year). Such adjustments shall be conclusive and binding upon all parties concerned. Such events may include, without limitation, changes in accounting rules or regulations, changes in regulatory rulings affecting the business of the Organization, and significant unexpected changes in economic conditions affecting the Organization. Certain events, such as loss of hospital or medical school certification, insolvency of the Organization or any subsidiary, or the loss of tax-exempt status of the Organization or any of its tax exempt subsidiaries, may result in the termination of the Plan at any time, at the discretion of the AHERF Compensation Committee.

#### 15. PLAN ADMINISTRATION

All decisions concerning the determination of Awards under this Plan will be subject to final approval of the AHERF Compensation Committee. In addition, the Committee will have the authority to interpret the provisions of the Plan and to make any final decisions necessary to administer the Plan, including but not limited to:

- Approval of Plan Participants;
- Apportionment of accountability;
- Establishment of maximum Awards;
- Approval of performance objectives
- Weighting of objectives (Organization vs. Business Unit vs. Individual);
- Certification of performance against objectives established for the Plan;
- Adjustment of objectives due to extraordinary events; and approval of individual Awards to be paid.

The Committees, in making any determinations under the Plan, shall be entitled to rely on opinions, reports, or statements of officers of the Organization, and of legal counsel, public accountants, and other experts or third parties.

#### 16. ASSIGNMENT AND EMPLOYEE RIGHTS

A Participant may not assign or transfer his or her rights under the Plan, and any attempt to do so will invalidate those rights.

No employee has any claim or right to be a Participant in the Plan nor to be granted an Award under the Plan, nor is there an obligation for uniformity of treatment of eligible employees or Participants under the Plan. Participation in the Plan does not give an employee the right to be retained in the employment of the Organization. Moreover, the decision about whether or not Awards should be paid under the Plan, in total or with respect to any Participant, is entirely within the discretion of the Business Unit Compensation Committee or AHERF Committee as may be appropriate.

17. DESIGNATION OF BENEFICIARIES

A Participant may designate a beneficiary or beneficiaries to receive, in the event of the Participant's death, all or part of the amounts to be distributed to the Participant under the Plan. A designation of beneficiary may be replaced by a new designation or may be revoked by the Participant at any time. In the event the participant fails to designate a beneficiary, the beneficiary designated for the Supplemental Survivor Life Insurance policy, provided by the organization, will be used. A designation or revocation shall be on a form to be provided for such purpose and shall be signed by the Participant and delivered to the Organization prior to the Participant's death. Any amount that is payable to a Participant upon death and is not subject to such a designation shall be distributed to the Participant's estate.

18. AMENDMENT OR TERMINATION

This Plan may be amended, suspended, or revoked at any time and without notice. In the case of termination of the Plan, the AHERF Compensation Committee, if it determines in its sole discretion that it is necessary or advisable under the circumstances, may authorize the proration or early distribution, or a combination thereof, of Awards earned under the Plan.

19. WITHHOLDING TAX

The Organization will deduct from all Awards paid under the Plan any taxes required by law to be withheld.

20. EFFECTIVE DATE

The Plan is effective as of July 1, 1994 and shall remain in effect until terminated by the AHERF Compensation Committee.

21. VALIDITY

In the event any provision of the Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of the Plan.

22. APPLICABLE LAW

The Plan shall be governed by and construed in accordance with the laws of the state of Pennsylvania.

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APPENDIX A

AHERF INCENTIVE PLAN PROCESS AND TIME LINE

*Contingent on dates of Compensation Committee and Board of Trustees meetings.*

*Business Unit compensation committees meet prior to AHERF Compensation Committee to certify and advance to AHERF business unit performance.*

Not Later  
Than

March 31	Organization goals and budget assumptions for coming fiscal year approved by Trustees.
June 30	CEO presents annual operating plan and budget to Trustees for approval.
June 30	Incentive plan participants' personal goals for the coming fiscal year approved by each supervisor.
August 30	Incentive plan participants' personal evaluations against prior year's goals completed by supervisor.
September 30	Prior fiscal year performance report against plan presented by business unit CEO to System CEO for evaluation. Coopers & Lybrand will complete review of Business Unit and System performance measures.
October 30	Business Unit and AHERF Compensation Committee meetings to review and validate performance against Trustee-approved plans, review CEO's report on individual performance against goals and authorize incentive awards as may be appropriate.

DK Ltd 1-18-95

JD-HL 0020921

APPENDIX B  
FISCAL YEAR 1996

I. AHERF ORGANIZATIONAL GOALS

PLAN AND EVALUATION FORMAT

PLAN/GOALS	RESULTS	PRIORITY WEIGHT 1-2-3 (Must)	EVALUATION Raw Score      Weighted Score	COMMITTEE VERIFICATION
Maintain or enhance uncompensated care as a percent of revenue compared to prior fiscal year levels (Correct for changed poverty levels)				
Maintain or enhance patient satisfaction, program accreditation and clinical care quality indicators compared to prior fiscal year levels.				
Maintain or increase the level of external funding for research				
All undergraduate and graduate educational programs sponsored by AHERF shall be fully accredited				
Achieve a favorable change in net equity equal to or better than the change in CPI				
The rate of increase in the cost of health care services provided as measured by the cost per adjusted discharge, shall be lower than the rate of increase in the medical component of the consumer price index.				

JD-HL 0020922

**APPENDIX B**  
**FISCAL YEAR 1996**

## APPENDIX B

	PLAN/GOALS	RESULTS	PRIORITY WEIGHT 1-2-3 (MUST)	EVALUATION <small>Raw Score Weighted Score 0-1-2-3</small>	COMMITTEE VERIFICATION
JD-HL					

JD-HL 0020923

[illegible]

\* Priority weight to be determined.

**Final Weighted Score:**

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Summary Evaluation	Exceeded Expectations Achieved Expectations Acceptable Progress Unacceptable Performance
Committee Verification	

JD-HL 0020924



## APPENDIX C

WORK UNIT ILLUSTRATIONS BASED ON  
ALLOCATION OF RESPONSIBILITY AND INTERDEPENDENCE

EXECUTIVE NAME	AHERF	AGH	AIHG	MCP/HU	MCPHUHS	SCHC
CEO Hospital	5%		5%	15%	25%	50%
CEO AIHG	5%	15%	50%		15%	15%
EVP Corporate Staff	50%	10%	10%	10%	10%	10%
CEO Hospital System	5%		15%	20%	50%	10%
EVP Finance	50%	10%	10%	10%	10%	10%
Provost	5%	15%	5%	50%	15%	10%
CEO Hospital	5%	60%	15%	20%		
EVP Legal Services	50%	10%	10%	10%	10%	10%

Dean	School 75%	University 25%
Academic Department Chairs	Department 75%	School 25%
Hospital Vice President	Hospital 100%	

For illustration only - Percentage allocations do not reflect discussion, agreement or approval of the nature of the distribution.

JD-HL 0020925

## INCENTIVE CALCULATION ILLUSTRATION

ASSUME: Corporate Staff Executive  
 Base Salary \$100,000  
 Individual Evaluation: Achieved Expectations

Work Unit Responsibility Allocation	Unit Evaluation	Score
AHERF 50%	Achieved Expectations	2
AGH 10%	Achieved Expectations	2
AIHG 10%	Exceeded Expectations	3
MCPHU 10%	Acceptable Progress	1
MCPHUHS 10%	Achieved Expectations	2
SCHC 10%	Acceptable Progress	1

Weighted Average

1.9

Work Unit Summary Evaluation: Achieved Expectations

From Table 1, Page 4, incentive award to be \$20,000.  
 (Work Unit achieved expectations and individual evaluation achieved expectations.)

ASSUME: Department Chair  
 Base Salary \$100,000  
 Individual Evaluation: Exceeded Expectations

Work Unit Responsibility Allocation	Unit Evaluation	Score
School 25%	Acceptable Progress	1
Department 75%	Exceeded Expectations	3

Weighted Average

2.5

Work Unit Summary Evaluation: Exceeded Expectations

From Table 1, Page 4, incentive award to be \$35,000.  
 (Work Unit exceeded expectations and individual evaluation exceeded expectations.)

JD-HL 0020926

MANAGEMENT LONG-TERM INCENTIVE PLAN  
AHERF Administrative Guide  
Addendum to Annual Incentive Plan

1. PURPOSE

AHERF has established a management annual incentive plan to enhance the organization's ability to achieve the mission and goals. In furtherance of this purpose and in recognition of the long range impact and effect of certain managerial decisions, AHERF also maintains the Management Long-Term Incentive Plan to promote and reward actions which are in the long-term best interests of AHERF.

2. ELIGIBILITY

Plan eligibility is extended to full time employees of AHERF or any of its subsidiaries who qualify for participation in the Management Annual Incentive Plan and who are Department Chairs or are in executive salary grades 12 or above. Other individuals who play crucial roles in the attainment of organizational objectives as determined by the AHERF Compensation Committee may also be included.

3. GENERAL PLAN DESCRIPTION

Long-term plan accruals are predicated upon the determination of an annual award under the Management Annual Incentive Plan. Pursuant to the granting of an annual award, eligible participants may be awarded a deferred incentive grant equal to the annual award up to an amount not to exceed 20% of base salary. The award will be deferred to the fifth fiscal year following the year for which it has been earned and distributed at the discretion of the compensation committee. During the deferral period, deferred incentive balances will be credited interest at the AHERF Time Value of Money Rate established annually for the Execu-FLEX Benefit Program.

4. LONG-TERM PERFORMANCE MEASUREMENT

Payment of deposits and accrued interest thereon will be subject to an adjustment, determined at the sole discretion of the AHERF Compensation Committee, based on the Committee's assessment of the extent to which the Organization has attained its long-term objectives over the five-year period following the date of the initial deposit. This assessment will include both qualitative and quantitative considerations deemed relevant by the Committee, including, without limitation, measures of quality of care, level of charity care provided, excellence of educational and research programs, and financial viability.

Actual awards to be paid under the Plan may vary from 0 percent to 100 percent of the total deposit and accrued interest, at the discretion of the AHERF Compensation Committee. Any reduction to the total deposit and accrued interest for a given year shall

apply in equal proportion (as a percent of total deposit and accrued interest) to the deposits and accrued interest of all participants for the year.

5. PLAN FUNDING AND VESTING OF ACTUAL AWARDS

Deposits under the Plan, and interest thereon, will be accrued monthly and charged as an expense against the income statement of the Organization and the applicable subsidiary. Accruals of deposits and interest will not imply vesting of any actual awards to participants.

Vesting of each actual award (following any reduction deemed appropriate by the AHERF Compensation Committee as discussed in paragraph 11 above) will occur five years following the completion of the fiscal year for which the deposit was earned, subject to the participant's continued employment with the Organization during the five-year period.

6. TERMINATION OF EMPLOYMENT

If termination of a participant's employment occurs during the fiscal year by reason of death, disability, or normal retirement (consistent with the Organization's then current provisions for disability and normal retirement), the Participant (or the participant's beneficiary or estate in the event of death) will be eligible to receive a prorata deposit for the year based on time employed and objectives accomplished during the year. Further, the total value of a participant's earned but unvested deposits and interest accrued thereon will vest immediately upon death, disability, or normal retirement, subject to a reduction by the AHERF Compensation Committee for Organization performance against its long-term goals over the preceding five-year period.

A participant who terminates employment with the Organization prior to the end of the fiscal year for any other reason (whether voluntarily or involuntarily) will forfeit the opportunity to earn a deposit under the Plan for that year. Further, the total value of a participant's earned but unvested deposits and interest accrued thereon will be forfeited upon termination of his/her employment with the Organization for any reason (whether voluntarily or involuntarily), other than for reasons of death, disability, or normal retirement, as discussed above.

Notwithstanding any other provision of the Plan, the Committee may, in its sole discretion, permit continued participation, proration or early distribution (or a combination thereof) of deposits and interest which would otherwise be forfeited.

7. NEW HIRES AND PROMOTIONS

Individuals hired or promoted into positions that would qualify for Plan participation will be added to the Plan, subject to the approval of the Committee. Such participants who have been in the qualifying position long enough to have had an impact during the fiscal year (minimum of three months as Plan participant) will be eligible to receive a prorated

deposit based on time employed as a participant during the year.

#### 8. ADJUSTMENTS

If an extraordinary event occurs during a fiscal year which significantly alters the basis upon which the organization or business unit performance levels were established for the year, the Committee, in its sole discretion, may make adjustments in such performance levels to the extent it deems appropriate (whether before or after the end of the fiscal year). Such adjustments shall be conclusive and binding upon all parties concerned. Such events may include, without limitation, changes in accounting rules or regulations, changes in regulatory rulings affecting the business of the Organization, and significant unexpected changes in economic conditions affecting the Organization.

#### 9. PLAN ADMINISTRATION

All decisions concerning the determination of deposits and actual awards under this Plan will be subject to final approval of the Committee. In addition, the Committee will have the authority to interpret the provisions of the Plan and to make any decisions necessary to administer the Plan, including but not limited to:

- Approval of plan participants;
- Establishment of maximum deposits;
- Establishment of performance objectives;
- Weighing of objectives (organization vs. business unit vs. individual);
- Certification of performance against objectives established for the Plan;
- Adjustment of objectives due to extraordinary events; approval of individual deposits; and
- Approval of actual awards to be paid upon completion of the five-year vesting period.

The Committee, in making any determinations under the Plan, shall be entitled to rely on opinions, reports, or statements of officers of the Organization, and of counsel, public accountants, and other experts or third parties.

#### 10. ASSIGNMENT AND EMPLOYEE RIGHTS

A participant may not assign or transfer his or her rights under the Plan, and any attempt to do so will invalidate those rights.

No employee has any claim or right to be a participant in the Plan nor to be granted a deposit or actual award under the Plan, nor is there an obligation for uniformity of treatment of eligible employees or participants under the Plan. Participation in the Plan does not give an employee the right to be retained in the employment of the Organization. Moreover, the decision about whether or not actual awards should be paid under the Plan, in total or with respect to any participant, is entirely within the discretion of the AHERF Compensation Committee.

11. DESIGNATION OF BENEFICIARIES

A participant may designate a beneficiary or beneficiaries to receive, in the event of the participant's death, all or part of the amounts to be distributed to the participant under the Plan. A designation of beneficiary may be replaced by a new designation or may be revoked by the participant at any time. A designation or revocation shall be on a form to be provided for such purpose and shall be signed by the participant and delivered to the Organization prior to the participant's death. Any amount that is distributable to a participant upon death and is not subject to such a designation shall be distributed to the participant's estate. If there shall be any question as to the legal right of any beneficiary to receive a distribution under the Plan, the amount in question may be paid to the estate of the participant, in which event the Organization shall have no further liability to any one with respect to such amount.

12. AMENDMENT OR TERMINATION

This Plan may be amended, suspended, or revoked at any time and without notice. In the case of termination of the Plan, the Committee, if it determines in its sole discretion that it is necessary or advisable under the circumstances, may authorize the proration or early distribution, or a combination thereof, of deposits earned under the Plan.

13. WITHHOLDING TAX

The Organization will deduct from all actual awards paid under the Plan any taxes required by law to be withheld.

14. EFFECTIVE DATE

The Plan is effective as of July 1, 1994 and shall remain in effect until terminated by the Committee.

15. VALIDITY

In the event any provision of the Plan held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of the Plan.

16. APPLICABLE LAW

The Plan shall be governed by and construed in accordance with the laws of the state of Pennsylvania.

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JD-HL 0020930